

## PART III

### MAJOR ADMINISTRATIVE MEASURES ADOPTED BY THE MONETARY BOARD IN 1998

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**Circular No. : BD / 01 / 98**

Open Market Operations Division  
Banking Department  
Level 30, West Tower  
World Trade Centre  
Echelon Square  
Colombo 1.

20 May, 1998

*To : All Primary Dealers and Commercial Banks*

**USE OF TREASURY BONDS FOR TRANSACTIONS AT  
THE SECONDARY WINDOW  
OF THE CENTRAL BANK**

Primary Dealers and commercial banks are hereby informed that Treasury bonds will be accepted for transactions at the secondary window of the Central Bank of Sri Lanka (CBSL).

Accordingly, the CBSL will use Treasury bonds for Repurchase Agreements (Repos), outright buying and outright selling at its secondary window with effect from 21 May 1998. Operating guidelines with regard to these transactions are attached. Outright selling or repos of bonds will be subject to availability of such bonds in the CBSL portfolio.

The existing guidelines with regard to the discounting, rediscounting and repos of Treasury bills will continue to apply.

**Y. M. W. B. Weerasekara**  
*Actg. Chief Accountant*

Foreign Finance Division  
Banking Department  
Central Bank of Sri Lanka  
P.O. Box 590  
Colombo 1.  
Telephone : 346287

10 June 1998.

To : All Commercial Banks

**JAPAN / SRI LANKA SPECIAL GRANT OF YEN 49,997,000/-  
(24TH DEBT RELIEF GRANT)**

1. Commercial Banks are hereby requested to follow the procedure set out in these instructions in dealing with imports under a grant extended by the Government of Japan to the Government of the Democratic Socialist Republic of Sri Lanka for financing imports from selected countries. Allocations for imports under this grant will be issued by the Director General of External Resources.
2. A commercial bank may establish an irrevocable Letter of Credit under this facility in favour of a supplier through its correspondents in the Supplier's Country, when a holder of an allocation, makes an application with a copy of his contract with his supplier and a letter of authority issued by the Director General of External Resources for this purpose. Every such Letter of Credit should carry immediately after the opening bank's identification number, a serial number prefixed with "1st Yen Grant 1998".
3. Each Letter of Credit should specify that the negotiating bank should obtain reimbursement from Bank of Tokyo - Mitsubishi Ltd., Global Service Banking Division, Tokyo, Japan, by Debit to Yen Ordinary Deposit Account No. 3076706 of the Government of the Democratic Socialist Republic of Sri Lanka. The request for reimbursement should accompany a certificate from the negotiating bank indicating that the documents conform to the terms of the Letter of Credit and that the documents have been forwarded to the credit opening bank. The credit opening bank should forward two copies of each Letter of Credit immediately after such credit is established, to the Chief Accountant, Central Bank of Sri Lanka, who will then issue the reimbursement authorization in respect of the credit to Bank of Tokyo - Mitsubishi Ltd., Tokyo, Japan without which, the negotiating bank would not be reimbursed.
4. On receipt of documents from negotiating banks, credit opening banks should release them to the importer only after collection of the Sri Lanka Rupee equivalent of the value of the documents. Commercial banks should ensure that the full value of the documents is received before releasing such documents to the importer. Payments should be made by the importer within 10 days of advice of the receipt of documents by the bank concerned.
5. Failure to pay the value of documents within the stipulated period of 10 days by the importer would result in his having to pay interest at 3% p.a. above the Bank Rate from the date of advice of the receipt of documents by the bank up to the date of retirement of the bill by the importer.
6. When making payments to the Central Bank of Sri Lanka of the Rupee value of documents collected from the importer, the commercial bank should give the following information, quoting reference to this operating instructions:
  - (a) Name and Address of the Importer
  - (b) Letter of Credit Number
  - (c) The name of the Exporter

- (d) Yen equivalent (should be indicated if the value of documents is expressed in any other convertible currency)
  - (e) Exchange Rate applied (including the Japanese Yen Rate *vis-a-vis* the currency in which the L/C has been opened)
  - (f) Date of Receipt of documents
  - (g) Date of Advice to the Importer
  - (h) Date of payment by the Importer
7. Commercial banks also should ensure when making payments to the Central Bank of Sri Lanka that they attach a copy of each of the following documents relating to the shipment in respect of which the payment is made:-
- (i) Invoice
  - (ii) Bill of Lading / Airway Bill
  - (iii) Documents evidencing the date and amount of payment made to the supplier.

**Y. M. W. B. Weerasekara**  
*Actg. Chief Accountant*

- cc: 1. Director General of External Resources  
Department of External Resources  
Secretariat Building,  
Colombo 1.
2. Controller of Exchange

**Circular No. : BD / FF / PAK / 830**

Foreign Finance Division  
Banking Department  
Central Bank of Sri Lanka  
P. O. Box 590  
Colombo 1.

18 June, 1998.

*To: people's Bank  
International Division*

**PAKISTAN LINE OF CREDIT FOR US\$ 5 MILLION LOAN AGREEMENT**  
**DATED 26. 2. 1991 WITH THE ISLAMIC REPUBLIC OF PAKISTAN**

1. Reference : Our Operating Instructions No. BD/15/91 dated 19th December 1991 on the above subject.
2. We wish to inform you that the Government of Pakistan has extended the validity period of the above credit upto 15th January, 2000. Further, the list of imports eligible for payment under the credit (listed in Annex 1 to the Operating Instructions referred to above) will, also include 40 BCGS wagons for the Sri Lanka Government railways.
3. Other terms and conditions of our Operating Instructions No. BD/15/91 dated 19.12.1991 remain unchanged.

**M. B. Dissanayake**  
*Chief Accountant*

CC: 1. Controller of Exchange  
2. Director General  
Dept. of External Resources

Banking Department  
Central Bank of Sri Lanka  
Level 30, World Trade Centre, West Tower  
Echelon Square  
Colombo 1.

6th November, 1998

*To: All Commercial Banks and Primary Dealers*

**REVERSE REPURCHASE TRANSACTIONS WITH  
THE CENTRAL BANK OF SRI LANKA  
OPERATING PROCEDURES AND GUIDELINES**

1. Commercial Banks and Primary Dealers are hereby informed that the Central bank of Sri Lanka (CBSL) will re-introduce Reverse Repurchase Transactions in Treasury bills and Treasury bonds with effect from 9 November, 1998. Operating procedures and guidelines with regard to the transactions under the proposed Reverse Repurchase Facility are attached hereto.
2. Commercial Banks and primary Dealers are requested to inform the Open market Operations Division of the Banking Department of the CBSL, the names and designations of officers in their respective organizations, together with their telephone and fax numbers, who are authorized to engage in reverse repurchase transactions with CBSL on behalf of their institutions.
3. Further details of this Facility can be obtained from Mr. Y. M. W. B. Weerasekera, Additional Chief Accountant on Tel: 346311 or Mr. A. Kamalasiri, Deputy Chief Accountant on Tel: 346298.
4. The existing guidelines on repurchase agreements, discounting and rediscounting of Treasury bills and Treasury bonds at the secondary window of the Central Bank will continue to apply.
5. The Central Bank of Sri Lanka reserves the right to vary operating procedures, guidelines or conditions or to withdraw the facility altogether without assigning any reasons.

**Y.M.W.B. Weerasekera**  
*Actg. Chief Accountant*

**A.S. Jayawardena**  
*Governor*

**REVERSE REPURCHASE FACILITY (RRF) OF THE CENTRAL BANK OF SRI LANKA  
OPERATING PROCEDURES AND GUIDELINES**

In these Operating Procedures and Guidelines unless the context otherwise requires:

“Banking Act” means the Banking Act No. 30 of 1988 as amended from time to time.

“Business day” means any day other than a bank holiday.

“central Bank” means the Central Bank of Sri Lanka established by the Monetary Law Act.

“Licensed Commercial Bank” has the same meaning as in the Banking Act.

“Monetary Law Act” means the Monetary Law Act (CAP 422 of the CLE) as amended from time to time.

“Outright Purchase” means an unconditional purchase of Securities by the Central Bank.

“Participating Institution” means a Licensed Commercial Bank or a Primary Dealer.

“Primary Dealer” means a primary dealer as defined in the Monetary Law Act.

“Purchase Value” means the total of the Purchase Prices of all securities.

forming the subject matter of a Reverse Repurchase Transaction.

“Reverse Repurchase Transaction” means the purchase of Securities from a Participating Institution by the Central Bank subject to an agreement by the Central Bank to sell back such Securities at a price or yield and on a date agreed at the time of such purchase.

“Security” means a Treasury Bill or a Treasury Bond.

“Sell Back Value” means the total of the Sell Back Prices of all securities forming the subject matter of a Reverse Repurchase Transaction.

“Treasury Bill” means a Treasury Bill issued under the Local Treasury Bills Ordinance (CAP 319 of the CLE).

“Treasury Bond” means a Treasury Bond issued under the registered Stock & Securities Ordinance (CAP 320 of the CLE).

“Working Hours” means any time between 800 hrs and 1615 hrs on a Business Day.

Words in the singular number shall include the plural and vice versa.

1. A participating Institution may avail itself of the Reverse repurchase Facility provided by the Central Bank of Sri Lanka by engaging in Reverse Repurchase Transactions in accordance with these Operating Procedures and Guidelines.
2. A participating Institution which wishes to avail itself of the Reverse Repurchase Facility of the Central Bank by engaging in Reverse Repurchase Transactions shall intimate in writing to the central Bank its acceptance of these Operating Procedures and Guidelines, and shall submit to the central Bank in schedule I attached the names of officers of such Participating Institution who are authorized to act on its behalf and to sign on its behalf in respect of Reverse Repurchase Transactions, the address and the telephone, telex and fax numbers of the participating Institution.
3. The interest rate applicable to a Reverse Repurchase Transaction shall be determined by the Central Bank and will be announced on the Reuters Screen from time to time.
4. The tenure of a Reverse Repurchase Transaction shall be one day (overnight) unless otherwise intimated in writing to Participating Institutions.
5. The purchase price of a security in a Reverse Repurchase Transaction shall be the price for Outright Purchase of such a security as determined by the Central Bank from time to time.
6. The Sell Back price of a security in a Reverse Repurchase Transaction shall be the purchase price of such security as referred to at paragraph 5 plus interest on the purchase price for the tenure of the Reverse Repurchase Transaction at the rate determined by the Central bank as set out in paragraph 3.
7. A participating Institution which wishes to engage in a Reverse Repurchase Transaction on any day shall contact the Open market Operation (OMO) Division of the Banking Department of the central Bank on telephone Nos. 423914, 422094 and 421191 or on such other number as may be intimated by the Central Bank

from time to time between 900 hours and 1400 hours on such day and shall make an offer for a Reverse Repurchase Transaction providing the following information:-

- (a) the amount required to be borrowed by the Participating Institution on the Reverse Repurchase Transaction;
- (b) the face value, serial number and maturity date of the security offered for the Reverse Repurchase Transaction; and
- (c) the coupon rate in the event the security is a Treasury Bond.

The confirmation of the offer should be made in writing by fax or telex within 30 minutes of intimation by telephone on the following fax and telex numbers:-

Fax: 421192, 421194, 421195, 421198

Telex: 23505, 23506

In the event that the participating Institution is unable to confirm the offer by telex or fax, it shall do so by delivery of the written confirmation to the OMO Division of the Banking Department of the Central Bank within the time specified. In any event, it shall be the responsibility of the Participating Institution to confirm the offer in writing within the specified period.

8. The central Bank shall not be bound to accept an offer made by a participating Institution and may accept or reject such an offer or a part thereof.
9. A participating Institution shall be informed by the Central Bank by telephone, fax or telex on the respective number provided by the Participating Institution under paragraph 2 of the acceptance of the offer made by the participating Institution or a part thereof by 1400 hours on the same day a Reverse Repurchase Agreement in respect of the accepted offer in the format at Schedule 1 shall be sent by fax to the Participating Institution.
10. A participating Institution whose offer is accepted by the Central Bank shall duly endorse the security in favour of the Central Bank and shall deliver such security to the Central Bank before 1500 hours on the same day together with the Reverse Repurchase Agreement duly signed by the authorized officers of the Participating Institution.
11. A Participating Institution which offers a security for a Reverse Repurchase Transaction shall be deemed to have full and unqualified right to transfer the security offered for the Reverse Repurchase Transaction. A signature purported to have been placed by any one of the persons whose names have been submitted by the Participating Institution under paragraph 2 to the Central Bank shall be deemed to have been duly placed by such person on behalf of the Participating Institution.
12. The account of the Participating Institution with the Central Bank shall be credited with the Purchase Value of the security on receipt by the Central Bank of the duly endorsed security and the duly executed Reverse Repurchase Agreement.
13. On the Sell Back Date stipulated in the Reverse Repurchase Agreement, the account of the Participating Institution with the Central Bank shall be debited with the Sell Back Value stipulated in the Reverse Repurchase Agreement.
14. On termination of the Reverse Repurchase Agreement and on debiting of the Participating Institution's account with the Sell Back Value on the Sell Back Date, the Central Bank shall endorse the security in favour of the Participating Institution and the Participating Institution may collect such security from the Central Bank during a business hour after such termination.
15. An obligation arising on a Reverse Repurchase Transaction which has to be discharged on a bank holiday shall be discharged on the next immediately succeeding business day.



16. The Central Bank shall have authority to make debits and credits to the account of a Participating Institution with the central bank in respect of a Reverse Repurchase Transaction.
17. A Participating Institution shall ensure the availability of funds in its account with the Central Bank to enable the central Bank to debit its account with the Sell Back Value on the Sell Back Date of a Reverse Repurchase Transaction. In the event of a Participating Institution failing to maintain sufficient funds as herein required, the Central Bank shall be entitled to treat the Reverse Repurchase Transaction as an Outright Purchase and to recover from the Participating Institution the liquidated damages suffered by it by the non completion of the Reverse Repurchase Transaction by debiting the Participating Institution account with such amount in addition to taking action as set out in paragraph 18 below.
18. The Central Bank may suspend a Participating Institution from engaging in Reverse Repurchase Transactions in the event of the failure of such Participating Institution to comply with any of the Operating Instructions and Guidelines contained herein. A Participating Institution which is a Primary Dealer shall, in such event, be also liable to have his Primary Dealership suspended or cancelled.
19. The Central Bank shall have the right to add to, delete from or vary these Operating Procedures and Guidelines from time to time. Such addition, deletion or variation shall take effect from the date the Participating Institution is given notice of such addition, deletion or variation unless another date is indicated in such notice.

**Schedule I**

**AUTHORITY TO OPERATE REVERSE REPURCHASE TRANSACTIONS**  
**OF THE CENTRAL BANK OF SRI LANKA**  
**UNDER OPERATING INSTRUCTIONS NO. BD/04/98**

Name of Institution :	Address : Phone No. : Fax No. :		
Name of Officer Authorised	Designation	Phone / Fax No.	Signature
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

I certify that the above officers are authorised on behalf of the .....  
*(Name of Institution)*

to participate in the Reverse Repurchase Transactions of the central Bank of Sri Lanka. We undertake to notify of any changes promptly.

Date : .....

.....

*General Manager*

Tel Nos. 422094, 423914, 421191  
 Fax Nos. 421192, 421194, 421195, 421198  
 Telex Nos. 23505, 23506

Open Market Operations Division  
 Banking Department  
 Central Bank of Sri Lanka  
 Level 30, World Trade Centre,  
 West Tower, Echelon Square  
 Colombo 1

Date :

Name & Address of Primay Dealer/ Commercial Bank  
 .....  
 .....

**REVERSE RE-PURCHASE AGREEMENT  
 AGREEMENT NO .....**

We hereby confirm having purchased from you, Government of Sri Lanka Treasury bill (s)/bond(s) under an agreement to sell back as per details given below:

1. T Bill/Bond No.	Bond Series*	Maturity	Purchase Price	Quantum Offered for sale (Face Value) Rs.	Purchase Value Rs.
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
Total				.....	.....

- 2. Sell Back Date (Maturity date) : .....
- 3. Tenor (No. of days) : .....
- 4. Interest Rate (%) : .....
- 5. Sell Back Value : .....
- 6. Settlement

We will credit (total Purchase Value) your A/c No. .... with us with Rs..... on the date of purchase on delivery of Treasury bill (s) bond (s) and debit (Sell Back Value) the said A/c with Rs..... on the date of sell back of the bill (s) bond(s). The above Treasury bill (s) bond (s) duly endorsed in our favour should be delivered to the CBSL on the date of purchase. The same will be endorsed and delivered to you on the sell back date.

AUTHORISED SIGNATURE  
 (CENTRAL BANK)

AUTHORISED SIGNATURE  
 (CENTRAL BANK)

We agree

AUTHORISED SIGNATURE  
 (PRIMARY DEALER/COMMERCIAL BANK)

AUTHORISED SIGNATURE  
 (PRIMARY DEALER/COMMERCIAL BANK)

SEAL :

Please conform by fax today before 1400 Hours.  
 \* Where applicable

Banking Department  
Central Bank of Sri Lanka  
P.O. Box 590  
Colombo 1.

11 November, 1998.

The Manager  
People's Bank  
Imports Unit 3  
International Division  
ANCL (Lake House) Bldg.  
Colombo 10.

Dear Sir,

**IDA 2938CE – ENERGY SERVICES DELIVERY PROJECT**

The following procedure may be observed in respect of imports under the captioned loan granted to Sri Lanka by the International Development Association (IDA) and the Global Environment Facility (GEF) of the World Bank.

1. Imports shall be against confirmed irrevocable without recourse Letters of Credit established by your Bank on behalf of project Coordinator, Ceylon Electricity Board (CEB), 50, Sir Chittampalam A. Gardiner Mawatha, Colombo 2.
2. Your authority for opening Letters of Credit will be the letters of allocation issued by the Director General of External Resources under the title "IDA 2938 CE – Energy Services Delivery Project."
3. Every Letter of Credit opened by your Bank unless otherwise advised by me, should provide that the negotiating Bank will be reimbursed by IDA and that the Letter of Credit will become operative only when IDA issues its special commitment in favour of the negotiating bank.
4. Applications for special commitment to IDA should be made by your customer on Form 1931 (Extract attached) supported by the following documents :-
  - (a) A copy of the Contract or Purchase Order related to the payment to be made; and
  - (b) Two copies of the Letter of Credit your Bank proposes to issue.
5. The negotiating Bank should be advised to furnish copies of all amendments made to each Letter of Credit to IDA which will provide its written approval for amendments involving :-
  - (a) the value of the Letter of Credit;
  - (b) the description or quantity of goods;
  - (c) the beneficiary; and
  - (d) any extension of the expiry date of the Letter of Credit more than six months beyond the original date or beyond the date quoted in the special commitment issued by IDA.

No other amendments require IDA's prior approval.

6. Since the captioned line of credit is denominated in Special Drawing Rights (SDR) the IDA will specify the SDR commitment in its Special Commitment Letter to the negotiating bank in respect of Letters of

Credit expressed in another currency. If due to this limitation of its commitment, IDA does not reimburse the full amount of the foreign currency to your correspondent abroad as specified in the Letter of Credit you may remit the balance due to the negotiating bank in accordance with the instructions issued to you in this regard by the Controller of Exchange.

7. Importers under this credit are not required to pay the rupee value of the shipping documents involved to the Government's Counterpart Fund account. You may therefore, release such documents to your customers no sooner they are received by you after recovering commissions, charges *etc.*, if any, due to you or to the negotiating bank.
8. Copies of Letter of Credit and amendments, if any, should be forwarded to the Chief Accountant, Central Bank of Sri Lanka, Colombo, for information.
9. Controller of Exchange will advise you separately of his requirements in this connection.

Yours faithfully,

**A. Shanmugasamy**

*Addl. Chief Accountant for Chief Accountant*

- c.c. 1. Controller of Exchange
2. Project Co-ordinator,  
IDA/WB Energy Services Delivery Project,  
Ceylon Electricity Board,  
50, Sir Chittampalam A. Gardiner Mawatha,  
Colombo 2.

**Operating Instructions No. BD / 03 / 98**

Ref. No: BD/FCBS/1/98  
Banking Department  
Central Bank of Sri Lanka  
P.O. Box 590  
Colombo.

Ref. No: EC/03/98(D)  
Exchange Control Department  
Central Bank of Sri Lanka  
P.O. Box 883  
Colombo.

12 November, 1998.

Operating Instructions to Commercial Banks

**INTRODUCTION OF THE EUROPEAN SINGLE CURRENCY - THE "EURO"**

The European Union decided to introduce a single currency called the "euro" for its member countries with effect from 1.1.1999, on which date the conversion rates of participating countries' national currencies are expected to be locked irrevocably against the new currency. Eleven European countries, namely, Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain have agreed to accept the proposed single currency against their national currencies. During the transition period from 1.1.1999 to 31.12.2001, the euro will co-exist with the national currencies of the above participating member countries. From 1.1.2002, such national currencies will cease to exist.

2. On the eve of the introduction of the euro, we would like to draw your attention to the need for commercial banks to examine their business processes in order to ensure they are ready to conduct normal business operations in the new currency from 1st January, 1999. Some important implications that need to be examined include those on deal conversion, re-denomination, payment system, price sources and continuity of contracts. In this connection, a copy of policy statement issued by the International Chamber of Commerce (ICC) is attached herewith. You are requested to closely follow the instructions contained in it as well as other statements issued by the ICC from time to time, with regard to the international practices arising from the introduction of the euro.

3. In this connection, the Central Bank of Sri Lanka wishes to inform all commercial banks that it has no objection to-

- (a) the opening and maintenance of Nostro Accounts in euro currency by commercial banks operating in Sri Lanka to effect payments or receipts beginning from 1.1.1999; and
- (b) the designation of the euro as a foreign currency for Foreign Currency Banking Units (FCBU), Non-Resident Foreign Currency (NRFC) Accounts, Resident Non-National Foreign Currency (RNNFC) Accounts, Resident Foreign Currency (RFC) Accounts, Exporter's Foreign Currency (EFC) Accounts with effect from 1.1.1999 for the purposes mentioned in our Circular Nos. FCBS 1/79 of 2nd May, 1979, BC/F-922/77 of 1.3.1978 and Operating Instructions Nos. EC/08/88(D) of 5.5.1988, EC/22/90(D) of 30.3.1990, EC/19/80 (D) of 14.5.1980, EC/52/91 (D) of 1.8.1991 and EC/41/93(D) of 29.3.1993.

4. Commercial banks should take the full responsibility for maintenance, operation of relevant accounts and honouring of such contracts entered into with their customers in euro, or in national currencies of the participating member countries referred to above, and are required to provide details to the Central Bank of Sri Lanka on the current reporting schedules with regard to any operation in euro or national currencies of the participating member countries carried out by them.

Chief Accountant

Controller of Exchange

**Policy Statement**

**The impact of the European economic and monetary union on monetary obligations related to transactions involving ICC Rules**

*Prepared by the Commission on Banking Technique and Practice*

The International Chamber of Commerce (ICC) is the world business organization, based in Paris. The ICC Commissions on Banking Technique & Practice, International Commercial Practice, and Insurance, develop and maintain uniform rules for international trade, including the Uniform Rules for Contract Guarantees (URCG 325), Uniform Rules for Demand Guarantees (URDG 458), Uniform Customs and Practice for Documentary Credits (UCP 500), Uniform Rules for Collections (URC 522), Uniform Rules for Contract Bonds (URCB 524), Uniform Rules for Bank to Bank Reimbursements (URR 525) (hereinafter referred to collectively as "ICC Rules").

The Introduction of the EURO, the European single currency, shall not have the effect of altering, discharging or excusing performance under any instrument subject to ICC Rules. This "Policy Statement" emphasized the need to correctly interpret and apply ICC Rules. Consequently, ICC National Committees and associated organizations are strongly urged to distribute this Policy Statement as widely as possible to help ensure the future smooth running of the instruments issued under ICC Rules. This Policy Statement does not amend any articles of ICC Rules in any way, but merely indicates the correct interpretation thereof.

**1. General**

- 1.1 As of 1 January 1999, the EURO will be substituted for the national currencies of those European Union member states participating in European Economic and Monetary Union (hereinafter, "EMU-Participating States") which are to be designated in May 1998. During the transitional period running from 1 January 1999 to 31 December 2001, the EURO (1 EURO - 100 Cents) will also be divided into the national currency units of the EMU-Participating States according to conversion rates which are to be irrevocably fixed by the Council of the European Union as of 1 January 1999 ("conversion rates"). The term "national denomination" as used below refers to the currency of any EMU-Participating State before 1 January 1999.

During the transition period persons are free to use either the EURO or the national denomination, but will not (unless otherwise agreed) be obliged to receive or make payment in EURO. However, any amount denominated either in EURO or in a national denomination of a given EMU-Participating State and payable within *that* state by crediting an account of the creditor, may be paid by the debtor either in EURO or in that national denomination, with any necessary conversion being affected at the conversion rate.

As of 1 January 1999 the ECU will be replaced by the EURO at the rate of one EURO to one ECU.

- 1.2 As from 1 January 2002 the national denominations will cease to exist and the EURO will be the only legal currency in the EMU-Participating States; all payments must be in EURO.
- 1.3 Continuity of contract will not be affected by the introduction of the EURO.
- 1.4 The above principles affecting national denominations are legally binding in all member states of the European Union, and apply equally to payment to be made in a national denomination by persons located outside the European Union, due to the generally accepted legal principle that the definition of what constitutes legal tender is governed by the law of the country whose currency is involved (sometimes referred to as the *lex monetae* principle).

**2. Consequences of the introduction of the EURO on practice under various ICC rules :**

- 2.1 UCP 500 for Documentary Credits (including standby letters of credit)  
*Below are the different possible cases and the relevant rules of interpretation.*

- 2.1.1. Documentary credits issued and payable before 1 January 1999 in a national denomination – Payment must be made and documents denominated in the currency of the credit.
- 2.1.2 Documentary credits issued before 1 January 1999 and payable before 1 January 2002 in a national denomination – Payment must be made in the currency of the credit, but documents may be presented either in the currency of the credit or in the EURO equivalent; however, where payment is to be made in the currency of an EMU–Participating State *and* by crediting an account located in such member state, payment may at the debtor’s (e.g., issuing bank’s) option be effected in the EURO equivalent.
- 2.1.3 Documentary credits issued in an national denomination before 1 January 1999 and payable on or after 1 January 2002 – Payment must be made in EURO, but documents may be presented either in the currency of the credit or in the EURO equivalent (for documents issued on or after 1 January 1999); Documents issued on or after 1 January 2002 must be denominated in the EURO.
- 2.1.4 Documentary Credits issued and payable on or before 1 January 1999 and before 1 January 2002 in a national denomination or in EURO – Payment must be made in the currency of the credit but documents may be presented in the currency of the credit *or* in the EURO equivalent *or* in the equivalent cross value in the national denomination at the beneficiary’s place of business; however, where the currency of the credit is a national denomination *and* payment is to be made in the currency of a particular EMU – Participating State by crediting an account located in such member state, payment may at the debtor’s (e.g., issuing bank’s) option be effected in EURO.
- 2.1.5 Documentary credits issued on or after 1 January 1999 but before 1 January 2002 in a national denomination or in EURO and payable on or after 1 January 2002 – Payment must be made in EURO, but documents may be presented either in the currency of the credit or, as the case may be, in EURO or in the currency of the beneficiary’s place of business, provided always that documents issued on or after 1 January 2002 must be denominated in EURO.
- 2.1.6 For purposes of examples 2, 3, 4 and 5 above, documents (including insurance documents) mentioned in UCP Art. 34 f) are not considered as being inconsistent with one another, if, within a single presentation of documents, any documents are denominated in the currency of the credit and/or in EURO and/or the currency of the place of business of the beneficiary.
- 2.1.7 Documentary credits issued and payable on or after 1 January 2002 – Credits cannot be issued in a national denomination and must be issued in EURO and payment must be made and documents (issued on or after 1 January 2002) denominated in EURO.
- 2.1.8 The guidelines set forth in this Policy Statement apply equally to transferable credits. Transferable credits issued in a national denomination and to be transferred during the transitional period – The transferring bank may convert the currency and amount of the credit into the EURO equivalent.
- 2.2 URCG 325 / URDG 458 / URCB 524 – Guarantees and bonds  
The principles set forth above also apply to guarantees and bonds.
- 2.3 URC 522 Collections  
Collections must be made in the currency stipulated in the collection instructions. However, if a collection instruction stipulates a national denomination of an EMU – Participating State, as of 1 January 1999 payment may be made in the EURO equivalent and as of 1 January 2002, payment must be made and accepted in the EURO equivalent.
- 2.4 URR 525 Bank to Bank Reimbursements  
Reimbursement claims must be made and honoured in the currency of the reimbursement authorization or reimbursement undertaking. However, if such currency is the national denomination of an EMU–Participating State, as from 1 January 1999 they may be made and honoured in the EURO equivalent, and as from 1 January 2002 they must be made and honoured in the EURO equivalent.

