

Banking & Investments



Making change

St. Louis prepares
for transition to euro

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Wells Fargo, Commerce gear up for euro transition

Companies

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rewriting
documents,
consolidating
accounts

Preparations to consolidate the lira, deutsche mark, franc, drachmai and peseta into the euro have reached St. Louis.

Local businesses that deal internationally should be preparing for the coming currency changes across the sea, said Larry Kirschner, senior vice president in Wells Fargo's St. Louis office.

On Jan. 1, all bank accounts in the legacy currencies of Germany, Belgium, Luxembourg, Spain, France, Ireland, Italy, the Netherlands, Austria, Portugal, Finland and Greece will convert to euro denominated

accounts.

The currency change is rippling to companies across the world.

At Wells Fargo, a diversified financial services company, plans are in place to begin transferring all European accounts to the euro during the fourth quarter this year. "And we're trying to communicate with all of our clients that this is happening — and that it is happening soon — so it doesn't catch anyone by surprise," Kirschner said.

Wells Fargo plans to open numerous euro accounts throughout Europe, to avoid the uncertainty surrounding euro-zone drafts and checks. Although the goal of the euro is consistency between drafts drawn on banks

across the 12-country zone, the reality is that one nation's euro may not be the same as another, Kirschner said.

"If you have two drafts, both for an identical amount of euros, and one is drawn on an Italian bank and one is drawn on an Irish bank, the Irish euro will clear with fewer fees and penalties than the Italian euro," he said. "Companies here need to be prepared and make sure they are smart about drawing payments on several different banks."

CommerceBank also is analyzing the number of European accounts it will need after the transition. Tony Huckleby, vice president of foreign exchange, said the bank eventually

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ly hopes to reduce the number of accounts it must maintain in the euro zone.

"As the euro matures, mechanisms will be put in place to move the euros more easily around the euro zone," he said. "If that seamlessness happens, then we'll probably reduce our number of banking relationships in Europe."

Commerce has been preparing customers for the transition for the past three years, Huckleby said. Its full-service international desk deals with all major international currencies and employs three international traders.

The bank has held seminars to explain the transition process and its ramifications and has helped clients rewrite contracts that are worded in legacy currencies. Huckleby said most clients are well prepared. "I think businesses are actually enthusiastically looking forward to the freedom in trade the euro will bring."

Because of the preparation, Huckleby said, "Jan. 1, 2002, is going to be a nonevent. It's going to be Y2K all over again."

Paul Toskin, vice president of trade finance at Commerce, said: "Although our customers' customers overseas may be pricing in German marks, behind the scenes, banks have already been settling in euros."

After Jan. 1, the Society for Worldwide Financial Telecommunications, the primary communication channel for international transactions, will reject wires made in legacy currencies. Drafts and checks issued in legacy currencies also will be rejected after the conversion date. Although the euro-zone countries vary as to how they will handle these issues, in most cases, checks and drafts in legacy currencies will be sent for collections adding time and expense to the process, Kirschner said. "Euro-denominated checks and drafts will clearly be the preferred method of payment."

Companies also need to confirm whether European clients and customers plan to consolidate many legacy accounts into a single euro account and determine that client's preferred route of settlement, Kirschner said.

"If a counter-party has consolidated all their European accounts into a single account in one country, such as the (United Kingdom), a euro wire into a German account may not be immediately reconciled," he said. "Such delays in reconciliation may reflect poorly on the credit-worthiness of U.S. companies. Communication on this matter with European counter-parties, prior to completion of the euro transition phase, should save a lot of confusion and embarrassment."

Even outside the euro zone, the way international transactions are handled could alter after the transition, said Bill



Larry Kirschner said local businesses should prepare for the euro transition.

O'Grady, vice president and director of futures research at A.G. Edwards & Sons Inc.

"The difficulty is not necessarily the euro countries," he said. "It's the near-euro countries like Sweden and the United Kingdom, which may enter the euro-market eventually."

"If you are trying to decide whether to locate a plant in Belgium or Denmark, you have to consider that Belgium uses the euro, and they are part of that 12-country block, so it may be easier trading there. On the other hand, investments in Denmark may end up holding up better to the dollar than the euro."

O'Grady said A.G. Edwards already has made the euro transition. The company has helped its international clients, particularly ones in retail, prepare.

"It's essentially an exercise of long division," he said. "Our clients want to know what their dollar amounts are worth, and it's just a matter of changing the numerator."

The euro is a result of the Maastricht Treaty, an agreement in January 1999 among 11 of the 12 euro zone countries to adopt a single currency. Greece joined at the start of 2001.

The exchange rate of each of the legacy currencies has been permanently fixed to the euro. Euro notes and coins will go into circulation in January. Between January and July, legacy currencies gradually will phase out.

This is more of an issue for foreign retailers, who deal with currency, than for U.S. companies that simply are changing figures on documents, checks, wires and drafts, O'Grady said. "Retailers in Europe are going to have to carry two cash registers for two different types of currency for a few months and handle accounts in two different types of currency."

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