The conversion rates are to be expressed in national currencies per euro defined with six significant figures, and inverse rates will not be used (which is not the case with most exchange rates): thus conversion rates will be defined for all conversions from euros into Member State currencies by dividing or multiplying by a pre-defined conversion factor.

For example, if the DM/euro rate is 1.92692 and the Italian lira/euro rate is 1935.41, then to convert DM1,000 into lira, one would divide by the DM/euro rate and then multiply by the lira/euro rate. All cross rates have to be defined in terms of euros (with not less than three decimals) so that there can be no different methods to convert currencies. In the above example, this should yield a sum of L1,004,406 for the Lira/DM conversion factor.

Who will bear the costs of these changes? There are essentially two types of costs that must be distinguished: one-time conversion costs, and the costs of doing business with essentially two currencies in each Member State. The costs of rewriting contracts or converting amounts will be borne by the contract holders themselves, but in terms of the cost of converting financial instruments (such as cheques) denominated in different Member State currencies, the costs will be borne by the customers, as banks may charge a fee for the service. As Member State currencies are only legal tender in their country of issuance, this does create an incentive for companies to convert accounts into euros at their earliest convenience, as the euro should be legal tender in all participating Member States. Again this assumes that there is zero probability of EMU being unsuccessful.

How are the rates of conversion to be chosen? This is an unresolved issue, and has been the subject of recent research (see Giovannini (1991) and De Grauwe (1996)). There are essentially three ways in which the conversion rates can be chosen, as De Grauwe (1996) discusses: first, it could be announced in advance that the conversion rates will be a weighted average of market rates during a given period prior to the start of the third stage (the so-called Lamfalussy rule); second, a pre-announced set of rates could be used, regardless of where market rates happen to be at the time, and; thirdly, the conversion rates could be set using the market rates as of the beginning of stage three. Clearly, in the first two cases, the setting of the conversion rates could involve a discrete jump in exchange rates. A discussion on the competitiveness and volatility effects of a discrete jump in exchange rates will be considered in a later section, suffice to say, minimisation of administrative costs of conversion during the transition phase would dictate the use of rounded conversion rates, so a discrete jump in exchange rates is a distinct possibility, although again this largely depends on the chosen approach to defining conversion rates. Canadian business service exporters and importers should be aware of this possibility, and there may well be a marked preference to enter into only short-term contracts during the period in the run-up to the transition phase. Once the transition phase has started, this uncertainty will be removed, and there will be a greater incentive to write contracts in terms of the euro. Clearly, contracts denominated in Canadian dollars could also be affected by these conversion issues, as the Canadian currency will be quoted against the euro after 1999.

Canadian financial institutions that provide services abroad or EU financial institutions that provide services to Canadians will also be affected by several details surrounding the continuity of contracts. The majority of outstanding contracts between Canadian companies, governments and individuals are financial instrument contracts, such as bonds, equities and other more specialised financial instruments such as those relating to derivatives and trade financing etc.. The prices of all equities will be converted into euros from the start of the third stage, although it is clear that dual pricing of all equity instruments will be necessary during the transition phase, as members of the general public will not be using the euro during this period. As for the debt markets, face values and prices will be converted into euros using the conversion rates, although fixed interest rates will not be changed - thus a 5 percent bond denominated in a Member State currency will become a 5 percent bond denominated in euros.