



BANK OF ENGLAND

News release

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Banknotes - Note Circulation Scheme

The Bank of England has commenced discussions with the commercial cash industry on changes to the arrangements for circulating banknotes. These were foreshadowed in a speech by Andrew Bailey, the Bank's Executive Director for Banking Services and Chief Cashier, in December 2009*.

The discussions will cover reforms to the Bank's Note Circulation Scheme (NCS) which manages the wholesale distribution and circulation of Bank of England banknotes by the commercial sector. The purpose of the NCS is to provide a framework to fulfil the Bank's two objectives for its note issuance: ensuring that the public can use notes with confidence that they are genuine and not counterfeit; and that sufficient notes of each denomination are available to meet the public's demand.

To make the arrangements economically viable, the NCS allows its members (commercial banks, cash-in-transit companies and the Post Office) to hold notes in custody for the Bank within their network of cash centres. The rules of the NCS are framed to minimise the risks to the Bank from allowing the custody of its notes to be held in this way by commercial organisations, and to promote efficiency in the distribution and processing of notes in a way that meets the demands of cash users.

The Bank has reviewed the design of the NCS. It has concluded that the fundamental structure should remain unchanged. However, the incentives for note distribution across the four note denominations (£5, £10, £20 and £50) should be aligned with the Bank's denominational mix policy. The proposed reforms will seek to do this to ensure an appropriate mix of banknotes is dispensed to the public.

The denominational mix cannot readily be incentivised through the current design of the NCS. In the reformed NCS, the priority will be to improve the support for the circulation of £5 notes. To support and inform the consultation process, last year a pilot study was conducted to assess the business case for dispensing £5 notes from cash machines (ATMs).

* Address to the Banknote Conference, Washington DC, 6 December 2009:

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2009/speech417.pdf>

Notes to Editors

1. The NCS was introduced by the Bank of England in 2001. It is a contractual framework which governs its relationship with the commercial cash industry: specifically those institutions which are NCS Members.

2. The following institutions are currently members of the NCS: G4S Cash Centres (UK) Ltd, Bank of Scotland, Post Office Ltd, Royal Bank of Scotland plc and Vaultex UK Ltd. The rules of the NCS set out the roles of Members and the Bank for the issuance of new notes, requirements for sorting notes, storage of surplus notes and the return of notes to the Bank for destruction.

3. Further information about banknote distribution is available at:

www.bankofengland.co.uk/banknotes/about/distribution_circulation.htm