



BANK OF ENGLAND

Speech

Remarks given by

Chris Salmon, Executive Director for Banking Services and Chief Cashier

At the launch of the public consultation for the Code of Conduct for the Authentication of
Machine-Dispensed Banknotes

25 February 2013

Today, the Strategic Cash Group is launching a public consultation on a new industry policy for banknote authentication. This is in response to a banknote recirculation model which has developed in recent years: local recycling.

Local recycling occurs when a banknote tendered by one customer in, for example, a bank branch or shop is then used to refill cash dispensing machines e.g. ATMs or self-service checkouts, and so then acquired by another customer. This differs from using banknotes authenticated by wholesale cash centres to refill these devices: a model which has provided robust authentication and quality control for banknotes for many years.

Local recycling has gained popularity abroad, particularly in Japan and parts of Europe. It has the potential to be a useful supplement to the wholesale cash model in the UK, in some circumstances increasing efficiency and flexibility. But without appropriate controls it could also reduce the extent to which banknotes are authenticated.

Robust authentication underpins the public's continued confidence in the currency: the public need to trust that the banknotes they receive are genuine. This starts with the sophisticated security features which are built into the banknotes themselves. But it also depends on these security features forming the basis for authentication and handling practices throughout the cash cycle. Practices which the entire cash industry need to work together on.

The *Code of Conduct for the Authentication of Machine-Dispensed Banknotes* will deliver robust local recycling by addressing the change in how, where and by whom a banknote may be authenticated.

Many stakeholders already adopt good practice on this area. We now want to ensure that there are adequate processes in place right across the industry to make sure counterfeits do not start to recirculate to the public through ATMs and self-service checkouts, while also enabling the cash industry to benefit from the potential efficiencies of local recycling.

There were just over 700,000 counterfeit Bank of England banknotes removed from circulation in 2012: nearly all of them were £10s and £20s. While they account for only a fraction of one percent of all Bank of England notes, we would like to work with you to reduce this.

The Bank of England employs a team which develops the most sophisticated banknote features. It also analyses counterfeits and works with law enforcement agencies to bring counterfeiters to justice. And our education team publicises the importance of checking multiple security features. But spreading good practice is not something we can do single-handedly: we need the collaboration of all cash users.

This collaboration is already well underway. The Code was drafted for SCG by a sub-group, which has already sought considerable input from the cash industry. We are seeking to build on this through the consultation process which starts today.

SCG's aim is to put the Code in place later this year. It will be based on notes distributed via ATMs and self-service checkouts being authenticated by machines which have been successfully tested by the Bank of England.

I hope that many of you will respond to the consultation. With the Code in place, we will have a robust and relevant policy for local recycling and a new pillar to support continuing confidence in our currency.

The consultation will run until 20 May 2013. A formal response will be published in July 2013, alongside the final Code.

Notes to editors

- The consultation document has been drafted by a sub-group of the Strategic Cash Group (SCG), chaired by Victoria Cleland, the Bank of England's Head of Notes Division and with consultation with cash industry stakeholders. SCG is particularly grateful to the LINK Scheme Executive and the British Retail Consortium for their input.
- The Code consultation document can be found at:
http://www.paymentscouncil.org.uk/what_do_we_do/cash/cash_recycling_consultation/.
- The consultation closes on 20 May 2013. A formal response will be published in July 2013, alongside the final Code.
- The *Framework for the Testing of Automatic Banknote Handling Machines* - the Bank introduced a voluntary framework to test machines with known counterfeit types on a regular basis. The Framework is one pillar of the Bank's efforts to maintain a high level of confidence in Bank of England banknotes. A full FAQ can be found at:
<http://www.bankofengland.co.uk/banknotes/Pages/retailers/framework.aspx>.
- The Code covers Customer-Operated Cash Dispensers (COCDs). Transactions where banknotes are handed over by a person are not included. This is because where a member of the public receives banknotes from another person at a till or branch counter, (s)he has the opportunity to refuse the banknotes if (s)he is not confident that they are genuine. This is not possible where the notes are machine dispensed. Moreover, it would be difficult for a member of the public to prove whether a given suspect banknote came from a particular machine.
- Based on the feedback from stakeholders, the sub-group developed the draft Code and decided against recommending, at this stage at least, a legislative approach such as that enforced for the euro. Further information on the ECB's requirements can be found at:
<http://www.ecb.int/euro/cashhand/recycling/html/index.en.html>.
- Seven banks in Scotland and Northern Ireland are currently authorised to issue banknotes on a commercial basis. The banknotes issued by these banks are not covered by the current draft of the Code but are expected to be included in a future version of the Code.

- SCG is chaired by Chris Salmon, the Chief Cashier of the Bank of England. Secretariat support is provided by UK Payments Administration on behalf of the Payments Council. The members of the SCG are:

Bank of England
Barclays Bank plc
G4S Cash Solutions (UK) Ltd
HM Treasury
HSBC Bank plc
Lloyds Banking Group plc
National Australia Group
Nationwide Building Society
Payments Council
Post Office Ltd
The Royal Bank of Scotland plc
The Royal Mint Ltd
Santander Ltd
Vaultex UK Ltd

The aims of the SCG are:

- Sustain reliable, available cash services, so that the public, retail and corporate customers are able to withdraw and deposit notes and coin in the manner to which they are accustomed, and in the manner which they might need;
- To support issuers in maintaining the integrity of, and confidence in, their currency;
- As far as possible, to ensure neutrality between surplus and deficit players