

MEETING OF THE TREASURY COMMITTEE OF CENTRAL BANKS MINUTES

With the participation of Joao Sydney de Figueiredo Filho of the Banco Central de Brasil, Bernardo Calvo, of the Banco de la República (Colombia); Fernando León of the Banco de España (Spain), Saúl León of the Banco Central de Honduras, Manuel Galán and Raúl Valdés, of the Banco de México and Fernando Sánchez C., of CEMLA, the Meeting of the Treasury Committee of Central Banks was held in the CEMLA offices on October 20 and 21, 2005.

The agenda discussed was as follows:

- I. VIII Meeting of the Treasury Committee of Central Banks
- II. Review of the Committee's activities
- III. Future Committee activities
- IV. Training activities

I. Eighth Meeting

The Committee discussed the dates and activities of the meeting, as well as the subject matter and methodology in depth. In reference to the offer made by the Brazilian Central Bank, it was decided to hold the meeting in Rio de Janeiro, Brazil on September 19 to 22, 2006.

Concerning the organization and subject matter of the meeting, it was decided to include various presentations on matters of interest, complementary to the documents to be required from the participants in the meeting notification.

I.1 Purpose of the Meeting.

Analyze the vault security requirements, the optimum level of cash reserves, the durability of paper as substrate for printing bank notes, the costs associated with handling cash, as well as the criteria to measure the quality of the bank notes in circulation.

I.2 Meeting Methodology.

In terms of meeting methodology, it was agreed to include:

- a) Visits to the Brazilian Mint in Santa Cruz (1 hour for Rio de Janeiro). This complementary activity will be held on September 19, 2006 and it will give the participants an opportunity to see the bank note and coin design and minting-manufacturing processes.
- b) A session for the presentation of Reports on the most relevant events in the last two years of each central bank, for which each delegation will have five minutes.

- c) Two round tables on current issues in which three or four participants will make a presentation of no more than 10 minutes, with the purpose of initiating broad debate in the meeting. The subjects selected are:

1. Cash custody outside Central Bank's safes.

Compare different models of cash custody when this activity has been granted by the central bank to third parties in order to analyze the results and potential benefits and risks.

2. Models of the fight against counterfeiting.

Compare different models in the fight against counterfeiting that have been put into practice by central banks, bearing four aspects in mind: a) the role of the central bank, b) legal means available, c) steps taken against counterfeiters and on behalf of those affected by false bank notes and d) improvements in bank note security.

The round tables will be scheduled for the afternoons of the first and second days of the meeting, immediately after lunch.

The countries between parentheses will open the discussion. The countries marked with an asterisk will coordinate the works of the corresponding round table.

- d) Presentations by the participating central banks on the subjects chosen. In order to ensure adequate discussion, the Committee agreed to include a suitable number of presentations in the meeting schedule. If the number of presentations proposed exceeds this number, the Committee will select those to be presented in the meeting. Nevertheless, all the presentation will be handed out. It was agreed to include the following points for the subject matter of the presentations:

1. Cash custody security

- a. Analyze security from the viewpoint of the procedures framed in a vision of institutional risk management.
- b. Risk control systems for the treasury.
- c. Security-custody-transportation: facilities, branches, extended vaults.
- d. Identification of responsibilities with the central bank security area.
- e. Security and risk management.

The focus on security must emphasize the risks associated with the procedures used by a Central Bank's Treasury, in order to draw up a matrix of risks and contingency plans.

2. Optimum level of cash reserves to held by a central bank.

- a. Why does a central bank need cash reserves?
- b. Different approaches among banks that print and those that buy bank notes.
- c. Indicators of the cash requirements: monetary base, volume of transactions (payments), bank notes and speed of circulation.
- d. Level of reserves by denomination and regional distribution.
- e. Restrictions imposed by storage and replacement capacity, and increase in circulation.

3. Durability of paper as printing substrate.

Identification of basic parameters to assess and evaluate paper durability.

- a. Description of substrates (standard paper and enhanced paper).
- b. Laboratory tests: standard durability tests.
- c. Experiences of actual bank note circulation tests with different substrates.
- d. Panel of relevant parameters of a substrate.

4. Analysis of cash handling cost.

In the context of transparency and accountability and outsourcing processes.

- a. Analysis of various methodologies applied by central banks to identify treasury operation costs.
- b. Design of a typical treasury cost structure for a central bank.
- c. Criteria to determine the efficiency of a central bank's treasury services: impact of treasury costs on the central bank's costs structure and in relation to the size of the economy.

5. Assessment of the quality of bank notes in circulation

Analysis of the various methodologies applied to measure the quality of the bank note and steps that may have taken to improve this: statistics, surveys and sampling.

- e) A Treasury Committee report including the activities carried out, especially in relation to the international courses on cash management held in Spain and Mexico in 2004 and 2005, as well as the activities planned for the future and the results of the two questionnaires and the document on costs methodology.
- f) Questionnaire and document on costs methodology

It was agreed that the participating Central Banks would be given two kinds of questionnaires in the months prior to the VIII Treasurers Meeting, in order to present a summary of the responses at the Meeting. The contents of the two questionnaires and the costs methodology document are as follows:

1. Questionnaire on general statistics concerning cash circulation and counterfeiting.

This questionnaire was handed out in previous Meeting, but with little response. It was prepared by Bernado Calvo.

2. Questionnaire on the durability of printing substrates.

It will be prepared ad-hoc for the VIII Meeting and the purpose is to obtain information on the durability of various substrates used in the bank notes of participating countries.

3. Document – presentation on the methodology to estimate basic cash operation costs.

A document – presentation will be prepared ad-hoc for the VIII Meeting for a first estimate of the costs regarding basic operations carried out with cash: supply of bank notes, custody, distribution, treatment and destruction.

Once the format is agreed on, the two questionnaires will be sent to the Central Banks from CEMLA and CEMLA will collect the responses. CEMLA will then send the responses to the persons who drew up each questionnaire so that they can prepare a summarized table for presentation in the VIII Meeting.

Schedule for the questionnaires

Activity	Date	Person in charge
Send the draft of the questionnaire to the Committee members	November 26, 2005	Joao Sidney Bernardo Calvo
Send the final questionnaire formats to CEMLA	February 28, 2006	Idem
Send the questionnaires to the participating banks	March 10, 2006	CEMLA
Deadline for returning questionnaires	May 12, 2006	Each participating CB
First listing of the questionnaire results If all the responses have not been obtained, a second round will be started.	June 12, 2006	Joao Sidney Bernardo Calvo
End of the second round to obtain questionnaire responses.	June 16, 2006	Each participating CB
Final list and preparation of final table	June 30, 2006	Joao Sidney Bernardo Calvo

I.3 Schedule of the VIII Meeting

ACTIVITY	DEADLINE	PERSON IN CHARGE
Send the invitation	May 19	CEMLA
Notice of participation	June 16	Each interested CB
Newsletter	July 14	BCB
Delivery of presentation summaries	August 18	Each interested CB
Deadline to send registration sheets and hotel reservations	August 25	Each interested CB
Delivery of presentations	September 8	Each interested CB
Meeting	September 19-22	CEMLA and Committee

All the documents required shall be sent to CEMLA and the BCB. The hotel reservation sheets are sent to the BCB.

In the participation notification, the central banks must indicate the name(s) of the officer(s) appointed to attend the invitations, as well as the subject of the document they intend to present, if applicable. Later, the host will send the registration sheet, hotel reservation sheet and newsletter to each participant.

II Review of the Committee's activities

The Committee made note of Bernardo Calvo's statement concerning the scant response by the central banks to the invitation to the course scheduled at the Banco de la República offices in October 2003.

III. Future Committee activities

- a) **Central bank meetings.** Based on the positive experience of the IV, V, VI and VII Meetings, the Committee decided to maintain the mechanism of rotary coordination of the sessions, in which the coordinator summarizes the most important aspects presented and proposes questions or issues to be discussed before the comments session and prepares a summary of the most outstanding

aspects of consensus to be included in the conclusions and recommendations of the meeting.

- b) **Next Committee meeting.** It will be held on September 18, 2006 one day before the VIII Meeting of Central Bank Treasurers at the offices of the Brazilian Central Bank.

V. **Training activities**

International Course on Cash Management.

Bernardo Calvo proposed this point to mention two things:

- a) The Banco Central de la República de Colombia has voluntarily offered to host the III Cash Management Course, or a future meeting, in order to show the participants the new Mint and printing facilities built in Bogotá.
- b) Ask the organizers of the I and II Cash Management Course to prepare a report for the Treasury Committee. Banco de México, Banco Central de la República Argentina and Banco de España will prepare the report and present it to the Treasurers Committee in its next meeting on September 25, 2006.

Work Guide for Round Tables

1. Cash custody outside a Central Bank's safes

- Criteria to determine who should be in charge of custody.
- Why not transfer custody?
- How are the contractual relations made by the central bank with the custodians established?
- What differences have been seen in service efficiency among different custodians: banks, carriers, etc.?
- What steps are taken with the custodians that fail to comply with the terms agreed upon?
- Has the bank note storage system improved and what is the impact on the reserves that the central bank has to keep in its vaults?
- Are there regulation or control measures?
- To what extent does custody transfer affect the treasury costs structure?
- Under what conditions and with what limits is delegation made?
- Aspects of security and technical requirements that must be observed in the facilities.
- Who assumes the costs and risks?
- How can the central bank guarantee the quality of cash in circulation in concession custody systems?

2. Models of the fight against counterfeiting.

- What is the central bank's role in guaranteeing the integrity of the currency?
- What is the central bank's role in fighting counterfeiting, considering that it is the issuer, and that its image should project confidence?
- What kind of legal measures does the central bank take to mitigate the impact of counterfeiting? Does it authorize commercial banks to withdraw false bank notes? Does it compensate the affected users? What is done with the false bank notes withdrawn?
- Who keeps statistics on counterfeiting, the central bank or other institutions? Identification of sources of counterfeiting
- Management indexes and comparative statistics: results
- How should the public be warned to protect itself from counterfeiting?

Schedule of Activities

Monday 18

Committee Meeting
Welcome Drinks

Tuesday 19

Visit to the Mint of the Brazilian Central Bank

Wednesday 20

09:00 – 09:15	Opening
09:15 – 10:30	Treasurers report
10:30 – 10:45	Coffee
10:45 – 11:30	Treasurers report
11:30 – 12:30	Vault security
12:30 – 13:00	Comments
13:00 – 14:30	Lunch
14:30 – 16:00	Round table “Custody of concessioned cash”
16:00 – 16:15	Coffee
16:15 – 18:00	Analysis of cash costs

Thursday 21

09:00 – 10:00	Optimum cash level
10:00 – 10:30	Comments
10:30 – 10:45	Coffee
10:45 – 11:45	Optimum cash level
11:45 – 12:15	Comments
12:30 – 14:00	Lunch
14:00 – 15:30	Round table “Models of the fight against counterfeiting”
15:30 – 15:45	Coffee
15:45 – 16:45	Assessment of the quality of bank notes in circulation
16:45 – 17:30	Comments

Friday 22

09:00 – 10:00	Durability of paper as printing substrate
10:00 – 10:30	Comments
10:30 – 10:45	Coffee
10:45 – 11:45	Durability of paper as printing substrate
11:45 – 12:15	Comments
12:30 – 14:00	Lunch
14:00 – 15:30	Conclusions and recommendations
15:30 – 15:45	Closing