Overview

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Objectives of the Eurosystem BRF

1. To establish a common policy for the conditions under which credit institutions are allowed to return to circulation (recycle) euro banknotes

2. To assist banks and other professional cash handlers (bureaux de change, post offices, CITs and other operators cash centers) in complying with their legal obligations according to Article 6 of the Council Reg. 1338/2001

3. To provide banks / other professional cash handlers with due diligence standards for banknote handling

Adoption by the ECB Governing Council on 16 December 2004

Common standards for banknote handling

**General principles**

- Banknotes to be recycled (re-issued) by banks and/or other professional cash handlers shall be checked for authenticity and quality (circulation fitness)
- Re-issue through
  - ATMs ➔ processed by Eurosystem NCBs or machines successfully tested by any of those NCBs
  - OTC ➔ processed by trained staff of banks and/or other professional cash handlers
- Manufacturers have to regularly prove to the Eurosystem the machines’ high level of counterfeit detection and fitness sorting capabilities
- Cash operators (banks, CITs, etc.) have to notify ex ante machines to NCBs
- Independent ATM deployers as well as retailers operating self-services devices dispensing euro banknotes to the public are expected to check banknotes for authenticity and fitness according to the standards of the Framework ➔ in principle, processing machines required
Common standards for banknote handling (cont.)

Exceptions

• Remote branches of credit institutions with a very low level of cash operations: fitness control of banknotes to be re-issued by ATMs or customer-operated devices may be performed by trained staff members provided that the volume of manually fitness-checked banknotes is limited to 5% of the overall volume of the respective banknote denomination that is recycled through ATMs and other customer-operated devices at national level.

• Force majeure: whilst the definition is left to the relevant national legal systems, it causes a significant impairment of the banknote supply, thereby enabling credit institutions and other professional cash handlers, in order to ensure a smooth banknote supply, to exceptionally and temporarily have the authentication and fitness checks of banknotes to be re-issued by ATMs or customer-operated devices manually checked by trained staff members.

Common standards for banknote handling (cont.)

Classification of banknotes by CRMs/CIMs

<table>
<thead>
<tr>
<th>Category</th>
<th>Classification</th>
<th>Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No euro banknotes</td>
<td>➔ Return to customer</td>
</tr>
<tr>
<td>2</td>
<td>Suspect counterfeit banknotes</td>
<td>➔ To be handed over to authorities together with information on account holder (not to be credited) Deadline: 20th working day after deposit</td>
</tr>
<tr>
<td>3</td>
<td>Banknotes not fully authenticated</td>
<td>➔ To be handed over to authorities ➔ Deadline: 20th working day after deposit ➔ Storage of information on account holder for 8 weeks (may be credited)</td>
</tr>
<tr>
<td>4a</td>
<td>Genuine and fit notes</td>
<td>➔ May be recycled (to be credited)</td>
</tr>
<tr>
<td>4b</td>
<td>Genuine and unfit notes</td>
<td>➔ Shall not be recycled (to be credited)</td>
</tr>
</tbody>
</table>
Common machine tests by NCBs

**General rules**

- **Eligible equipment**
  - Banknote handling machines according to Art. 2.1.1 of the BRF
  - Teller assistant cash recycling machines
  - Detector systems (authentication modules, fitness detector systems)
- **Timely limited release**
  - Initial test / annual re-tests / ad-hoc re-tests
- **Eurosystem requests manufacturers to follow the counterfeit situation and urges operators to update their machines**

Common machine tests by NCBs

**Organisational aspects**

- **Pre-conditions**
  - Contract between testing NCB and manufacturer based on the Eurosystem template agreement
  - Provision of machine-related information by manufacturer
- **Location**
  - NCB premises
  - Manufacturers’ premises (inside and outside the euro area)
  - Banks / CITs’ premises
Common machine tests by NCBs

Test material

1. Common Test Deck
   - Real counterfeits confiscated in circulation (50 different types)
   - Special reproductions by the Eurosystem
     - Black & white copies of notes
     - 5 types of printed banknotes with imitations of machine-readable level 2 machine-readable features
       - Standard reproduction technology
       - Commercially available products
       - Basic counterfeits of machine-readable features

2. Test set of defective notes
   - Soil, stains, de-inking, washed notes
   - Missing corners, tears, tapes, holes, format deviations, tapes

Required test results

<table>
<thead>
<tr>
<th>Pre-test</th>
<th>Reliable authentication of genuine fit banknotes: At least 90% sorted correctly as genuine</th>
</tr>
</thead>
</table>
| Counterfeit detection | 100% recognition and separation of notes of the test deck  
Additionally, for CRM/CIM: less than 10% rejects |
| Fitness detection | At least 95% detection of unfit test notes  
At least one note per defect category tested |
| Traceability of account holder | For CRM/CIM: Ability to link suspect banknotes (counterfeits) to account holder  
Test depends on technique applied |
Publication of tested machines

- Machine types that passed the common test procedures are published on the ECB website
  

- Publication period = 1 year
- Removal from ECB website:
  - Failure in annual test or ad-hoc re-test
  - Refusal of manufacturer to carry out a re-test
  - Expiry of publication period

Monitoring by the Eurosystem

1. Reporting requirements for banks / other professional cash handlers
   - General data on cash centers, number and types per machines etc.
   - Operational data (back-office sorting machines)
     - Banknotes processed
     - Sorted to unfit
     - Recycled

2. NCBs may carry out on-site inspections at banks / other professional cash handlers to check banknote handling machines (monitoring tests) and related working procedures
### Implementation of the Eurosystem BRF

<table>
<thead>
<tr>
<th>Participating MS</th>
<th>New entrants</th>
<th>New entrants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation Period</td>
<td>until 31.12.2006</td>
<td>1 year</td>
</tr>
</tbody>
</table>
| Transitional period | • General rule: until 31.12.2007  
• Derogations:  
  ➢ until 31.12.2009: FR  
  ➢ until 31.12.2010: GR, ES, IR, IT, PT | 1 year | 1 year |


- The implementation has been done by means of a legal act: Decree-Law No. 195/2007 of 15 May 2007 and further implemented by BdP Circular No. 18/2007 of 6 June 2007
- Scope *ratione materiae*: recycling activity of euro banknotes by all professional cash handlers according to the legal framework laid down in Council Reg. 1338/2001
- Scope *ratione personae*: credit institutions and other professional cash handlers, in particular CIT companies
- General underlying principle: only those euro banknotes subject to fitness quality and authenticity checks according to the criteria laid down in the Eurosystem BRF may be returned to circulation

• **General scheme**
  - General principles and rules enshrined in the legal act
  - Contractual approach: the recycling activity by banks and other professional cash handlers may only be carried out after signature of a contract with BdP as per the template adopted by BdP Circular No. 18/2007

• **General rules**
  - Euro banknotes shall only be returned to circulation via ATMs or other customer-operated devices if they have been checked for both authenticity and fitness by banknote handling machines successfully tested by an NCB
  - Banknotes which have been checked for authenticity by trained staff members, either manually or without the use of successfully tested banknote handling equipment, shall not be returned to circulation via ATMs or other customer-operated devices, but can only be re-issued over the counter after being checked for fitness

Implementation of the Framework in Portugal: Exceptions to the general rule

• **Remote branches of credit institutions with a very low level of cash operations:** fitness control of banknotes to be re-issued by ATMs or customer-operated devices may be performed by trained staff members subject to (i) previous communication to the BdP and (ii) limiting the volume of manually fitness-checked banknotes to 5% of the overall volume of the respective banknote denomination that is recycled through ATMs and other customer-operated devices at national level

• **Force majeure:** subject to a duly reasoned request and with a view to prevent that the banknote supply is significantly impaired, the BdP may authorise temporarily that banknotes to be re-issued by ATMs or customer-operated devices are checked for authentication and fitness purposes by trained staff members
Implementation of the Framework in Portugal: BdP duties

- Carry out tests pursuant to the requirements laid down in the Eurosystem BRF of all banknote handling machines submitted for test by manufacturers
- Inform the credit institutions and other professional cash handlers about the issuance of euro banknotes with modified or new security features early enough to allow timely preparation of the handling of the new euro banknotes
- Monitor the quality level of euro banknotes in circulation and machines in operation

Implementation of the Framework in Portugal: Sanctions

- A comprehensive set of administrative sanctions of a pecuniary nature are foreseen for the following infringements to the PT banknote recycling legal framework:
  - Non-compliance with the duty to immediately hand over to the police banknotes denominated in euro or in any other currency which credit institutions and other professional cash handlers know or have sufficient reason to believe to be counterfeit
  - Recycling activities without prior contract with BdP
  - Re-issue via ATMs or other customer-operated devices of euro banknotes not checked for both authenticity and fitness by banknote handling machines successfully tested by an NCB
  - Use of banknote handling machines not successfully tested by an NCB
  - Lack of or incomplete observance of information and/or communication duties
- Transitional period: until 31 December 2010, no sanctioning procedures
Thank you for your attention!