



V MEETING OF CENTRAL BANK TREASURERS
Mexico D.F., October 4th to 6th, 2000

PROGRAMME

Wednesday, October 4th

08:45 – 09:15	Registration
09:15 – 09:30	Welcoming remarks
09:30 – 10:30	Relevant events in the Central Bank treasuries during the last year. Within five minutes, each Central Bank makes a statement on the most important aspects occurring since the last meeting until present time.
10:30 – 11:00	Coffee Break
11:00 – 12:15	Relevant events in the Central Bank treasuries during the last year. Within five minutes, each Central Bank makes a statement on the most important aspects occurring since the last meeting until present time.
12:15 – 13:00	Central Bank Treasury Committee Report
13:00 – 15:00	Lunch
15:00 – 16:30	Roundtable: Composition of the Currency. Central Bank of Costa Rica, Bank of Mexico, Federal Reserve Coordinator: Bank of Mexico
17:00 – 18:30	Welcoming Cocktail

Thursday, October 5th

09:00 – 09:30	Outsourcing of Bank Notes Processing. The Brazilian Experience. Mr. José Dos Santos Barbosa. Central Bank of Brazil.
09:30 – 09:45	Comments
09:45 – 10:15	Restructuring the Notes and Coins Issued in 50 years of Central Banking in Philippines. Mrs. Teresita G. Manigque. Central Bank of Philippines.
10:15 – 10:30	Comments
10:30 – 11:00	Coffee Break
11:00 – 11:30	The New Gold Dollar. Mr. Jon Cameron. Board of Governors of the Federal Reserve System.
11:30 – 11:45	Comments
11:45 – 12:15	The Experience of the Central Bank of Peru in the Exchange of Bills and Coins. Mr. Juan Medina. Central Bank of Peru.
12:15 – 12:30	Comments
12:30 – 14:30	Lunch

- 14:30 – 16:00 Roundtable: Centralization and Decentralization of the Treasury Services.
Central Bank of Argentina, Central Bank of Chile and Central Bank of Colombia.
Coordinator: Central Bank of Argentina
- 16:00 – 16:30 Coffee Break
- 16:30 – 17:00 System for packaging, transportation and storage.
Mr. Raúl Sierra. Bank of Mexico
- 17:00 – 17:15 Comments

Friday, October 6th

- 09:00 – 09:30 System for Packaging and Storage of Bank Notes.
Mr. Diego Fuentes. Central Bank of Colombia
- 09:30 – 10:00 System for Packaging and Storage of Bank Notes.
Mr. Víctor Andrés Ibares. Bank of Spain.
- 10:00 – 10:30 Comments
- 10:30 – 11:00 Coffee Break
- 11:00 – 11:30 Experiences in the Change of Banknotes for Coins and Issuance of Higher Denomination Banknotes.
Mr. José María Avilés. Central Bank of Argentina.
- 11:30 – 12:00 Experiences in the Exchange of Bank Notes for Coins and the Issuance of Higher Denomination Bills.
Mr. Ramiro Castillo. Central Bank of Chile
- 12:00 – 12:30 Experiences in the Exchange of Bills for Coins and Issuance of Higher Denomination Bills.
Mr. Ramón Pérez. Central Bank of the Dominican Republic.
- 12:30 – 13:00 The Bank of Canada's Experience Withdrawing Bank Notes from Circulation.
Mr. David Ashwood. Bank of Canada
- 13:00 – 13:30 Comments
- 13:30 – 15:00 Lunch
- 15:00 – 16:30 Roundtable: Disablement and Destruction of Bills.
Central Bank of Colombia, Federal Reserve System and Central Bank of Peru
Coordinator: Federal Reserve System
- 16.30 – 17:00 Report of the Committee of Central Banking Treasury.
- 17:00 – 17:30 Conclusions and recommendations of the meeting.
- 17:30 Closing remarks
- 20:00 Closure Dinner at the Restaurant Hacienda de Los Morales.



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Mexico City
October 4 - 6, 2000

CONCLUSIONS AND RECOMMENDATIONS

Currency composition

1. For the central bank, the different note denominations have a twofold purpose: to meet the transaction needs of the public and to minimize the number of notes and coins in circulation. The denomination structure is an important indicator of the behavior of the economic agents, expressed in monetary terms.
2. Depository institutions greatly influence currency composition, especially because of their requirements when stocking note dispenser machines, better known as automated teller machines, or ATMs. Although it is true that the availability of the ATMs makes it possible to pass the note classification responsibility on to the trading banks, ATMs have fostered a rather unfair unbalance favoring brand-new notes over coins. In some instances, because credit institutions prefer fewer denominations, the requirements of ATMs led to combinations that differ significantly from those recommended by the central bank. This difference creates complications for retail transactions.
3. The deviations from recommended denomination structures have typically implied higher central bank operating costs, especially in the issuing process. Furthermore, the above-mentioned changes have had an impact on the velocity of circulation and on the lifespan of the notes. Apart from these problems, such offsets have, as a general rule, widened the gap between the public preferences for certain denominations and those of the trading banks.
4. ATMs, however, are the main means for distributing notes in many countries, thus giving the trading banks ample powers to determine the denominations that circulate.
5. As the currency denomination structure is of critical interest and importance to the central bank, it is imperative to develop an appropriate strategy to decisively influence such a structure. Two possible behaviors from the issuing institution are possible:
 - It accepts the structure the market demands. In such an event, the central bank reacts passively and takes on the cost.
 - It tries to set the structure, either by means of regulations and norms or to influence preferences of the economic agents by means of educational and broadcasting campaigns.

6. Nevertheless, the second option calls for a legal framework allowing the central bank to react to the trading bank's actions regarding denomination demands and to a certain degree of banking of the economy. Furthermore, the central bank requires some statistical tools in order to establish the optimum denomination structure. But although macroeconomic models have significantly contributed to the estimations of the currency amount that the public demands, they are not accurate enough to establish such a structure.
7. The surveys applied amongst currency users seem to demonstrate that there is an advantage derived from knowing exactly what the public exactly needs and not relying on the information that the trading banks convey by means of their currency demand.
8. Central banks could establish norms so the trading banks adjust their equipment to accept a more-appropriate denomination structure. Furthermore, central banks might be able to transfer to trading banks certain costs derived from note processing through contracts with security transportation companies. Trading banks would have to pay for the classification and selection of the currency they need for the automated teller machines in exchange of the benefit of having the denominations they require.
9. Coins are important, as they make it possible to have a great number of retailing operations and last much longer than notes. This, of course, represents lower costs for the central bank, especially in terms of issuance and replacement. Nonetheless, it has been proven that the public and intermediaries both reject coins, whether for handling inconveniences or for the high processing and storage costs. It is, therefore, advisable to implement some measures guaranteeing the distribution and availability of coins.

Centralization and decentralization of treasury services

1. Money is a public good that allows the economic system to function. The central bank is the public institution upon which the responsibility of supplying the necessary cash to meet the needs of the public and of the trading banks has been bestowed. That is why it has to give an account of its responsibilities to society:
 - To guarantee that cash is available when needed and in the desired quantity, quality, and assortment
 - To prevent forgery
 - To ensure confidentiality of privileged information, both on technology and operating techniques, and of its relationship with credit institutions.
2. Although the central bank enjoys a certain amount of power, the above-mentioned responsibility does not represent a business in itself. Nevertheless, electronic money threatens to replace notes and coins, and

the central bank needs replace unfit notes and to address the problems of forgeries.

3. Treasury services rendered by the central bank include the distribution, classification, preservation, control, and destruction of monetary species; these services include aspects such as storage, custody, and transportation of notes and coins. Even though these services are of critical importance for the operations of trading banks, if costs are to be shared, it should be taken into consideration that third parties can provide only some of these services, whereas others are the exclusive responsibility of the central bank. Thus, it could be said that an appropriate approach would include the need to lower costs in order to be more efficient at the moment of fulfilling responsibilities.
4. The truth is that the trading banks are not willing to share the costs derived from the above-mentioned services, but rather transfer them to the users, who end up paying taxes to finance, among other things, cash availability. However, it would not be reasonable to have them participate in costs that are the sole responsibility of the central bank. Thus, the best option would be to be flexible when determining the criteria for sharing the provision of treasury services; at the same time, measures should be taken to ensure the fulfillment of the available regulations and norms. Menu-based schemes could be used to allocate responsibilities regarding custody, classification, selection, distribution, storage, and transportation of money.

Disablement and destruction of notes

1. The central bank has the responsibility for destroying notes and has to guarantee that this is a safe and definite process. Some ecological considerations have affected the perception of the different note-destroying modes and of the uses given to the remains.
2. Though different options to recycle paper notes have been tested, difficult situations have been encountered because of the lack of interest amongst potential users.
3. Destruction mechanisms, and the use given to the remains, need to be examined, in terms of their environmental impact. In this regard, the polymer seems to offer a number of recycling advantages in the plastic industry.
4. Automated on-line equipment has a hard time destroying low-denomination notes when these notes are in especially bad condition.
5. Because the different note-destroying machines do not always work with the same level of efficiency for the different note qualities and do not always respond adequately to changes in the note design, it is recommended that central banks include contract conditions that incorporate the possible contingencies at the moment of destroying notes. These contract

conditions should guarantee the vendor's adequate level of service, including training and follow-up on the performance of the equipment.

6. Central banks should demand more collaboration from trading banks in the note classification process. In this way, it will be possible to create better conditions for an adequate destruction process.

Some aspects regarding the Central Bank Treasury Committee

The current members will continue being part of the Committee up to the next treasurers meeting. The Treasury Committee of the Central Reserve Bank of Peru is incorporated as host of the Sixth Central Banking Treasures Meeting.

V REUNION DE TESOREROS DE BANCA CENTRAL
V MEETING OF CENTRAL BANK TREASURERS

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