

## Renewal of the ECB's legal framework for banknote recycling

In a decision adopted on 16 September 2010, the ECB renewed the legal framework governing the recycling of banknotes. While the principles underlying the existing agreements remain the same, the decision introduces two notable changes: the Banque de France now has the authority to reduce handling restrictions in the event of a crisis, and cash handlers have an obligation to report to the central bank.

On 16 September 2010, the Governing Council of the ECB adopted a decision which renewed, as of 1 January 2011, the legal framework governing the recycling of banknotes by private cash handlers (cf. box).

### Limited impact on existing agreements

From an operational point of view, the legal changes will have a limited impact in France. The underlying principles governing the recycling of banknotes by private cash handlers remain unchanged:

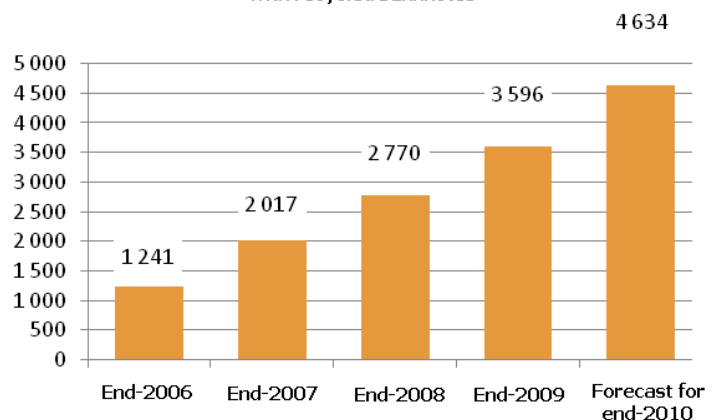
- credit institutions wishing to stock their customer-operated cash dispensers with banknotes that do not come from a Eurosystem central bank are required to sign an agreement with the Banque de France or use a service provider which has signed such an agreement;
- current agreements stipulate that banknotes must only be handled using equipment that has been successfully tested by a Eurosystem central bank;
- institutions that have signed an agreement must ensure they have appropriate operating and internal control procedures in place, and allow the Banque de France to conduct on-site and off-site inspections;
- the exception for remote branches continues to apply.

Institutions that have already signed agreements will not be required to modify their procedures and the Banque de France's inspections remain unchanged. Old agreements will be automatically replaced by the new ones (cf. Banque de France website), with no administrative formalities, except where an institution specifically rejects the change after receiving written notification from the Banque de France.

### Increased legal security in the event of a crisis

There are nonetheless two changes in the new framework which need to be highlighted: firstly, the introduction of the concept of exceptional events in the ECB decision. Article 7-2 of the decision specifies the following: "Where an exceptional event occurs as a result of which the euro banknote supply in a Member State is significantly impaired, cash handlers' trained staff members may, on a temporary basis, and subject to the relevant NCB's agreement that the event is exceptional, carry out manual authenticity and fitness checking of euro banknotes to be recirculated via customer-operated machines or cash dispensers."

Number of bank branches replenishing their ATM with recycled banknotes



The "Framework for the detection of counterfeits and fitness sorting of euro banknotes by credit institutions and other professional cash handlers" specified that, in the event of force majeure, as defined by the relevant national legal system, professional cash handlers were no longer obliged to comply with certain handling restrictions.

In France, in the event of force majeure, credit institutions could “exceptionally allow trained staff to check the authenticity and fitness of banknotes”. However, only a judge had the authority to decide, *ex post*, whether the event could legitimately be considered as a case of force majeure.

Under the Governing Council’s decision, in our country, it will now be the role of the Banque de France to decide whether banknotes can be authenticated and fitness checked manually, and as such to verify whether the event that prompted the request for manual checking can indeed be qualified as exceptional.

This provision, introduced in particular at France’s request, will help ensure greater legal security for institutions in the event of a crisis. The procedure cash handlers will need to follow to implement manual checking if they find themselves in this situation will be posted on the Banque de France’s website over the course of the first half of the year.

#### **Mandatory reporting to central banks as of 2012**

The second change in the ECB decision of 16 September is the introduction of an obligation to report to central banks: every six months, credit institutions will have to submit to the Banque de France data on the volume of banknotes recycled, broken down by denomination. This provision, which was already included in the previous European framework, was not applied in France. It will become mandatory as of 2012.

At present, only cash-in-transit centres and cash handling centres which process large volumes of banknotes for redistribution to bank branches are required to submit data to the Banque de France on a monthly basis. This obligation will continue to apply.

#### **A legally binding act**

The ECB Governing Council decision which comes into force on 1 January 2011 will replace the existing “Framework for the detection of counterfeits and fitness sorting of euro banknotes by credit institutions and other professional cash handlers” (usually called the “Framework”). The decision came about because of an amendment to Article 6 of EC Regulation 1338/2001 on the “measures necessary for the protection of the euro against counterfeiting”, which came into force in 2008. This amendment stipulates that private sector operators handling banknotes in order to supply customer-operated cash dispensers shall be required to comply “with procedures defined by the ECB”. The ECB’s decision is thus a legally binding act and applies directly to all cash handlers within the euro area wishing to recycle banknotes.

The decision will substantially modify the legal framework governing banknote recycling in France: standard agreements approved by ministerial decree in 2005 will have to be amended and replaced by the agreements appended to the Banque de France Governor’s decision which implements the ECB decision.

#### **For further details**

On the Banque de France website (<http://www.banque-france.fr/>):

- the [ECB’s decision](#) of 16 September 2010,
- the [amendment](#) to EC Regulation 1338/2001 of 18 December 2008,
- the legal framework for the recycling of banknotes: [presentation](#) and [reference texts](#),
- the procedures for recycling banknotes.
- see also the [article](#) published in *Bulletin de la Banque de France* No. 179 in the first half of 2010 on the quality of banknote circulation.

You may also contact the Banque de France at:

[controlfiduc@banque-france.fr](mailto:controlfiduc@banque-france.fr)

## End of the requirement to face and orientate banknotes

As of 1 January 2011, it will no longer be necessary to face and orientate banknotes when depositing them at the counters of the Banque de France branches. This measure, which responds to a request from the banking sector, is also part of a harmonisation effort within the euro area.

### A request from banks...

The request to drop the requirement to face and orientate banknotes had been formally expressed in 2007 by the Fédération bancaire française (French Banking Federation) and, at the European level, by the European Payment Council (EPC), a body representing banks among, in particular, the ECB, for questions pertaining to payment instruments. The FBF and the EPC argued that the modern banknote handling techniques, and in particular the capability of sorting machines to authenticate banknotes irrespective of how they are presented, no longer required them to be faced and oriented for lodgements and withdrawals at NCBs. This argument was based on the example of a number of euro area NCBs (Italy, Greece, Austria, etc.) that did not impose this obligation, and stressed notably that automated teller machines did not require banknotes to be replenished faced and orientated in order to function correctly.

### ...set out in the Eurosystem roadmap

The Eurosystem<sup>1</sup> has therefore agreed, via the Governing Council's decision of 28 February 2008, to comply with this request, which it has included, among other guidelines, in a "roadmap for a greater convergence of the cash services" provided by euro area NCBs. The roadmap recommended that the "facing" and orientation of banknotes should be dropped at latest by 1 January 2011.

After consulting the players in the industry, and in order to give them the time needed to adapt to the new methods, the Banque de France decided to set the date of 1 January 2011 for dropping the obligation of facing and orientating banknotes at its branches. On 21 May 2008, it informed the relevant professional organisations (FBF and, for cash-in-transit companies, Fedesfi) as to its decision.

### The banknotes delivered will no longer be faced nor orientated

The measure, henceforth generally applied across the euro area, comes into effect as of 1 January 2011. As the banknotes deposited at its branches are not necessarily faced and orientated, the Banque de France itself will no longer be able to deliver, as of this date, banknotes presented in this way. Indeed, even if the new banknotes are still, for their part, faced and orientated, and possibly those of some banks might continue to be deposited in this way, the Banque de France will not be able to distinguish, in its stocks, banknotes presented faced and orientated. Moreover, the delivery of new banknotes, which only concerns limited quantities (around 10 to 15% according to the denomination size, with the exception of the 5 euro banknote), is guided by general considerations regarding the maintenance of the quality of banknotes in circulation. In this regard, no specific requests from credit institutions can therefore be taken into account.

The cash transaction procedures (available on the Banque de France website) will be modified on 1 January 2011 to reflect the new measure (dropping of the sentence regarding the obligation of facing and orientating banknotes making up packets).

<sup>1</sup> The Eurosystem is constituted by the European Central Bank and the national central banks (NCBs) of the Member States that have adopted the euro.