



EUROPEAN CENTRAL BANK

**THE EUROSISTEM'S TERMS OF REFERENCE FOR THE
USE OF CASH- RECYCLING MACHINES BY CREDIT
INSTITUTIONS AND OTHER EURO AREA
INSTITUTIONS ENGAGED IN THE SORTING AND
DISTRIBUTION OF BANKNOTES TO THE PUBLIC AS A
PROFESSIONAL ACTIVITY**

The Governing Council of the ECB has taken note that credit institutions established in the euro area, as well as other euro area institutions engaged in the sorting and distribution of banknotes to the public as a professional activity (all these institutions shall hereafter be referred to as “operators of cash-recycling machines”), are beginning to invest in stand-alone, customer-operated devices that are capable of receiving, processing and dispensing banknotes, or so-called “cash-recycling machines”.

The use of cash-recycling machines can have a direct effect on the cash cycle. As a general rule, the Governing Council is stressing that in order to guarantee a high quality of the banknotes in circulation, cash-recycling machines may be used only if the task of keeping the banknotes in circulation both free of counterfeits and unfit banknotes can reliably be performed by such machines. Both standards should be controlled by NCBs by regular sample checks. As the Eurosystem is responsible for putting euro banknotes into circulation, there is therefore a need for a common Eurosystem position.

This common position has been discussed with the manufacturers of cash-recycling machines, as well as the various European credit sector associations. The Governing Council of the ECB approved at its meeting on 18 April 2002 common terms of reference for the use of cash-recycling machines by operators of cash-recycling machines, including the minimum sorting standards for cash-recycling machines. The conditions for the use of cash-recycling machines are expressed as non-binding terms of reference, and the Governing Council of the ECB has decided that euro area NCBs will contribute as

soon as possible to the implementation of the aforementioned terms of reference in their respective national statutory or contractual frameworks with operators of cash-recycling machines organising the cash cycle. In anticipation of the national implementation, and in order to clarify at this stage the conditions under which operators could use cash-recycling machines in the euro area, the Governing Council has decided to publish its common terms of reference on the websites of the Eurosystem and in all official EU Community languages.

In developing the Eurosystem's terms of reference, due regard has been paid to Article 6 of the Council Regulation (EC) No. 1338/2001 of 28 June 2001 laying down measures necessary for the protection of the euro against counterfeiting¹ (hereafter “Council Regulation”).

This Article obliges operators of cash-recycling machines to withdraw from circulation all euro banknotes received by them which they know or have sufficient reason to believe to be counterfeit, and to immediately hand them over to the competent national authorities. Member States shall take the necessary measures to ensure that operators of cash-recycling machines which fail to discharge the aforementioned obligation are subject to effective, proportionate and deterrent sanctions.

Without prejudicing the national measures taken by Member States, the Governing Council of the ECB has adopted the following terms of reference for the use of cash-recycling machines.

Operators of cash-recycling machines must furthermore comply with all the obligations laid down in national counterfeit and money laundering legislation.

I. Detection and sensor requirements

Ensuring a high-level detection of counterfeits and preventing the dispensing of suspected counterfeits is of paramount importance. Cash-recycling machines should therefore be able to classify deposited banknotes into one of the following four categories:

¹ OJ L 181 of 4 July 2001, pages 6 et seq.

Category	Classification	Properties	Treatment
1	No banknote, not recognised	Not detected as a banknote because of: <ul style="list-style-type: none"> - wrong image or format; - transportation error (e.g. double feeds, etc.); - large dog-eared or missing sections; - handwritten notes, separating cards, etc.; - wrong currency. 	Return to customer
2	Element(s) identified as counterfeit.	Image and format recognised, but one or more authentication features (IR, UV, magnetism, security thread, etc.) missing or clearly out of tolerance.	To be withdrawn from circulation. To be handed over – together with information on the account holder – when confirmed as counterfeit to the competent national authorities. Not to be credited to account holder.
3	Elements not clearly authenticated. Suspect banknotes.	Image, format and authentication features (IR, UV, magnetism, security thread, etc.) recognised, but quality and/or tolerance deviations. In most cases unfit or soiled banknotes.	The banknotes must be processed separately and transported to an NCB for authentication. The information on the account holder has to be stored for four weeks and made available on request. May be credited to account holder.
4	Banknotes fully authenticated as genuine ones.	All authentication checks delivered positive results.	Can be used for recycling. To be credited to account holder.

Only banknotes which (i) have been fully recognised as genuine (Category 4) and (ii) meet the minimum sorting standards (see Section 3 below) may be used for recycling. Banknotes classified into Categories 2 and 3 would have to be withdrawn from circulation and stored/processed separately.

2. Identification of the account holder and retraceability of transactions

Registration and identification of (i) Category 2 and 3 banknotes/counterfeits and (ii) the respective account holder is necessary in order to ensure retraceability and thus enhance the level of security. Banknote identification features (e.g. electronic “fingerprints” of banknotes or other identification methods) together with the customer identification should be stored for a minimum of four weeks, enabling counterfeits to be retraced to the account holder.

Video surveillance is recommended and could provide additional security against criminal activities.

3. Sorting of unfit banknotes

Cash-recycling machines should sort unfit banknotes, which must be returned to the respective NCB. Unfit banknotes are banknotes of which the quality is deemed to be insufficient for further use in the cash cycle. The minimum standards for sorting unfit banknotes are available on request. This is on a “need to know” basis only to relevant parties.

4. Information on the euro banknotes and their security features

Information on the euro banknotes and their security features was provided to operators of cash-recycling machines and to manufacturers of ATMs, teller assistant machines and banknote-accepting, detecting and sorting machines in the context of the euro test runs in 2000 and 2001. This information – together with the possibility to test counterfeits – is deemed to be sufficient to ensure a proper authentication of euro banknotes.

5. Performance tests of machines and updates of authentication software

Operators of cash-recycling machines should use cash-recycling machines whose manufacturers have proven that their equipment complies with the requirements set out in Sections 1,2 and 3 above by carrying out tests with counterfeits at Eurosystem NCBs or at National Analysis Centres (NACs), as appropriate, in their respective Member State. The operators of cash-recycling machines should update the authentication software to ensure that new counterfeits may be detected.

No certification of cash-recycling machines will be issued to manufacturers. However, Eurosystem NCBs may provide manufacturers with written statements on the performance of the machines at the aforementioned counterfeit tests. The NCBs would ensure through a special clause in the statement that the information contained therein, including any reference to the tests as such, shall only be used for bilateral contacts with customers and not for advertising or any kind of promotion. Eurosystem NCBs will undertake all necessary steps to prevent any misuse of these written statements. The NCBs may carry out system controls of cash-recycling machines, verifying inter alia the accuracy of the sensors, the retraceability of transactions, data storage and the sorting standards for unfit banknotes.

6. Depositing/cash-in machines

The aforementioned terms or reference will also apply to customer-operated depositing/cash-in machines² should no separate authentication checks be performed manually by a cashier before the banknotes are paid out again. This is deemed necessary in order to comply with the obligation to withdraw from circulation all banknotes received which operators know or have sufficient reason to believe to be counterfeit (Article 6 of the aforementioned Council Regulation). A transition period until 30 June 2003 will apply for the technical adaptation of existing machines. Meanwhile, operators will of course have to comply with the obligations laid down in Article 6 of the Council Regulation, and the national implementation thereof, by way of organisational measures.

24 May 2002

² The banknotes deposited with these machines will in principle be credited to the depositor's bank account.