

Code of Conduct for the Authentication of Machine-Dispensed Banknotes

Response document to the 2016 consultation on extending the
scope of the Code to cover Scottish and Northern Ireland issuers'
banknotes



BANK OF ENGLAND



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Foreword

The Code of Conduct for Machine Dispensed Banknotes, has an important role to play in maintaining confidence in banknotes. Cash is still a key part of many people's daily lives and in 2015 cash remained the most frequently used payment method by consumers¹, and the number of notes in circulation continues to increase each year. As cash stays in the cycle longer, with advances in technology facilitating local recycling, it is important that notes dispensed after being recycled are verified as genuine. The Code makes a key contribution to this, enabling the public and businesses to benefit from this cost effective cash mechanism whilst ensuring the authenticity of banknotes. We are grateful to all of those organisations that are complying with the Code, and Code Sponsors will continue to work with businesses to promote and support compliance.

On behalf of all the Code Sponsors, we would like to thank those organisations which responded to our public consultation, which ran from April to June 2016. We received responses from the sectors which would be affected by our proposed changes to the Code, providing a majority agreement to extend the Code. This document summarises the key themes raised by respondents during the consultation process and provides responses to those themes. It has been published alongside a revised Code of Conduct for the Authorisation of Machine-Dispensed Banknotes². We have delayed publication of the Code and the consultation response document to allow them to coincide with the launch of the ACBI Machine Testing Framework.

Further comments or feedback on the Code remain welcome at local.recycling@paymentsuk.org.uk



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¹ Source: Payments UK <http://www.paymentsuk.org.uk/sites/default/files/publication-free/UK%20Payment%20Markets%20Summary%202016%20-%20Free%20Download.pdf>

² See http://www.cashservices.org.uk/sites/default/files/code_of_conduct_for_the_authentication_of_machine-dispensed_banknotes_v3_march_2017.pdf

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Executive Summary

The public consultation ran from April to June 2016 and views were actively sought from all those identified as interested parties. The consultation was also advertised on the Cash Services and Bank of England websites. Respondents were asked to comment on 14 specific questions relating to the draft revised Code. Questions posed are listed at the start of each section of this document.

We received 17 written responses from across all sectors, including retailers, ATM deployers, Banknote Equipment Manufacturers and relevant trade associations. Some respondents replied collectively on behalf of their members, so views represented a wider number of stakeholders. In addition, conversations were held with some affected parties who did not provide a written response to ensure a range of views were received.

The majority of respondents supported the proposals, providing a majority of agreement to extend the Code to cover Scottish and Northern Ireland banknotes.

Following the consultation, we have extended the date by which all Scottish and Northern Ireland ATMs and self-service checkouts should be compliant from March 2018 to March 2019. This is to ensure a full year of testing (allowing firms to remain on their existing reporting schedule) following the publication of the ACBI Machine Testing Framework. Self-certification will still be requested in March 2018 to monitor progress, with full compliance expected to be reported by March 2019. Minor drafting and clarifications have been added to the Code.

We published the Code on 07 March 2017, and implementation has commenced. The ACBI Machine Testing Framework was published on 06 March 2017.

Consultation point A: Scope of the Code

Questions posed

- A1. How clear is the scope of the Code with regard to both Bank of England banknotes and Scottish and Northern Ireland banknotes? Does it sufficiently avoid ambiguity? How could it be clarified if not?
- A2. How clear is the scope of the Code with regard to different types of COCDs? Does it sufficiently avoid ambiguity? How could it be clarified if not?
- A3. Are there any current arrangements the Code does not cover that should be included? e.g. note supply arrangements, recycling practices, etc.
- A4. Please include any other feedback on the scope of the Code.

Key response themes

The majority of respondents stated the Code was clear and unambiguous with no further clarification required. Some respondents commented that;

1. Communication with Banknote Equipment Manufacturers is important to ensure their awareness of the requirements the Code puts on retailers, to enable them to make the necessary upgrades to their machines.
2. Although the Code has been clarified to include all Customer Operated Cash Dispensers (COCDs), there is no timescale specified for when COCDs other than ATMs and SCOTs (Self-service checkouts) should be compliant.
3. Scottish and Northern Ireland banknotes have no definitive cut off for becoming obsolete, and it is hard to find a definitive list of all Scottish and Northern Ireland banknotes in circulation. To complete the Machine Testing Framework for Scottish and Northern Ireland banknotes Banknote Equipment Manufacturers need access to all varieties of genuine banknotes, and counterfeit samples. Advance warning about note design changes on Scottish and Northern Ireland banknotes should be given to Banknote Equipment Manufacturers.
4. The introduction of polymer notes reduces the risks the Code is seeking to address

Response

(Theme 1) Two Banknote Equipment Manufacturers responded to this consultation. Banknote Equipment Manufacturers known to the Bank of England will be consulted by the Local Recycling Review Group (LRRG) on changes and updates to the Code, and informed of any new note issues by the issuing banks, along with any updates to the Machine Testing Framework. Retailers and other COCD deployers may wish to provide their specific requirements (including those brought about by the Code) to the Banknote Equipment Manufacturers.

(Theme 2) The scope of the Code has been clarified to include all COCDs, however there is only a requirement to report compliance on ATMs and self-service checkouts. This is due to the low level of dispense rates from other types of COCDs. Should the usage and aggregate values dispensed increase to a scale where this is warranted, compliance self-certification may be requested. Appendix 6 in the Code has been re-worded to clarify this. The timescale for all COCDs to become compliant is the same for Scottish and Northern Ireland notes.

(Theme 3) All Scottish and Northern Ireland banknotes dispensed by a COCD will be subject to the Code. Information on current Scottish and Northern Ireland banknotes has been made available on the ACBI website³ The Scottish banknote issuers have stated their intention to issue polymer £5 and £10 banknotes alongside the Bank of England. After that, Scottish paper notes will begin to be destroyed which will reduce the number of variations of Scottish notes

³http://www.acbi.org.uk/current_banknotes.php

in circulation. Northern Ireland banks are considering their responses to the introduction of polymer notes in England and Scotland.

The ACBI Machine Testing Framework was published 06 March 2017. Banknote Equipment Manufacturers will be contacted regarding test packs for Scottish and Northern Ireland banknotes.

Questions relating to when information on new note designs is communicated to Banknote Equipment Manufacturers are outside the remit of the Code and the Local Recycling Review Group. Consultation responses relating to these issues have been shared with the issuing banks, both by the Bank of England and through ACBI.

(Theme 4) Polymer banknotes provide enhanced counterfeit resilience. The techniques required to produce high quality counterfeit polymer banknotes are slow, expensive and require a high level of effort and technical expertise, which presents a significant barrier to counterfeiters.

Effective counterfeit resilience needs both security features and effective authentication. Machine authentication prior to dispense is an important part of maintaining confidence in the distribution cycle.

Consultation point B: Transition timeframe

Questions posed

- B1. How achievable is the timeframe for your business (and your sector in general, if you wish to comment)? To what extent would your organisation need to adjust its practices to comply with the Code? Please explain any the impact of any process changes.
- B2. If the timeframe is not achievable in your view, what timeframe would you suggest and why?
- B3. Please include any other feedback on transition timeframes.

Key response themes

Some respondents queried the proposed timeline of March 2018, stating not enough time had been allowed to ensure upgrades to machines had been implemented. At the time of publication, it was expected the ACBI Machine Testing Framework would be published in Autumn 2016. To ensure the ABMI MTF has been in operation for at least 15 months we have extended the full compliance date for Scottish and Northern Ireland Banknotes from March 2018 to March 2019. Some respondents commented that;

1. The revised Code launch date should be delayed owing to potential costs and complexities that may be experienced through the introduction of polymer notes, and the implementation period should be extended to allow for development of authentication equipment.
2. Full compliance of tranche 1 ATMs of the existing Code has not yet been achieved. There should be a pause to allow non-compliant firms to become compliant, and perform a full assessment of costs and benefits before expecting tranche 3 compliance (due March 2017) or adding further requirements (such as those in the consultation).
3. If Northern Ireland issuing banks decide to launch a polymer note with an implementation date after the proposed Code compliance date of March 2018, then a change in the compliance date should be considered to avoid any additional reworks to note dispensing machines. A phased approach of implementation dates by region, issuer or denomination would be more suitable.

Response

(Theme 1) The Code was published in March 2017 and allows a full year of MTF testing ahead of the revised March 2019 compliance date. In addition, many machines will have already been upgraded ahead of the September 2016 Bank of England polymer banknote launch. Self-certification will be requested in March 2018 to allow the Review Group to begin monitoring compliance with the Code, with full compliance expected by March 2019.

Cash is an important part of the UK's payment services. For the public to trust and want to continue to use cash they need to be confident that the banknotes they acquire are genuine. Whilst polymer banknotes provide enhanced counterfeit resilience, no banknote is counterfeit-proof. We need to ensure that both paper and polymer banknotes in circulation are genuine, and implementation of the Code helps to achieve this objective.

The ACBI will actively publicise the implementation of the Machine Testing Framework for Scottish and Northern Ireland banknotes to Banknote Equipment Manufacturers. Users of the equipment may wish to discuss appropriate timetables with their suppliers. Formal Code compliance extension requests will be considered if exceptional circumstances are experienced.

(Theme 2) The majority of respondents agreed with the transition timeframe and feel enough time has been allowed for implementation of the Code. Of those who responded, three were already compliant with the proposed expansion

of the Code to include Scottish and Northern Ireland banknotes. Two respondents, and those who were consulted via conversations, said that they would seek to comply with the extended Code. LRRG will work with members to help achieve full compliance.

(Theme 3) Both the Bank of England and the ACBI Frameworks will test that authentication machines work effectively with the new polymer banknotes.

New notes will routinely be launched in order to combat counterfeiters. As new notes are launched (by the Bank of England, or Scottish or Northern Ireland issuers), machine manufacturers will issue software/firmware updates to ensure equipment is compatible with the new notes, under Code principle 3. Machines should be updated within 28 calendar days of notification from the manufacturer. Similarly, if a new counterfeit is detected urgent software/firmware updates may also be communicated and issued by manufacturers at the request of the note issuer.

Consultation point C: Compliance reporting

Questions posed

- C1. Do you agree that there should be a sector-focused, risk based approach to the requirement for reporting on compliance?
- C2. Is it clear how different organisations should report on their compliance? If not, how could this be clarified?
- C3. Please include any other feedback on compliance reporting.

Key response themes

The majority of respondents agreed with the proposals to merge reporting types into a single timetable with a sector-focused, risk-based approach. Some respondents commented that;

1. There is a requirement for clear communication of the changes to the Code to ensure compliance across all sectors, including cost implications to prepare for changes required.
2. Guidance on compliance reporting for operators of other COCD types should be clarified to ensure developments and changes to the risk profile, which may instigate formal compliance reporting in the future, are captured.
3. There should be an online portal for annual compliance self-certification for all Customer-Operated cash Dispensers subject to the Code.
4. Certification of different machine types may be performed at different times of year, so compliance can only ever be a 'snapshot' of the status at that time.
5. Compliance is not mandatory, so how can this be achieved if it is not mandated?

Response

(Theme 1 and 2) The Review Group have agreed to proceed with the roll out of the Code and will undertake regular monitoring of the risks associated with compliance. LRRG will liaise annually with sector trade associations (e.g. travel ticketing, car park payment, vending machines, gaming machines, etc.) to assess the scale of recycling and common practices.

(Theme 3) Alternative methods of submitting self-certification have been investigated but do not prove cost effective. The Review Group remain committed to supporting organisations in self-certifying their compliance, for example, by providing historical compliance data for the requesting organisation.

(Theme 4) It is the responsibility of the Organisation which provides the COCD for public use to ensure this Code is adhered to. The Organisation must declare its compliance with this Code at the point of its annual attestation/self-certification.

(Theme 5) Whilst the Code is not mandated, it is supported as best practice by both the note issuing banks (including the Bank of England) and the industry bodies (BRC, Cash Services, LINK, Payments UK). It is in the interests of both the industries as a whole and individual firms to dispense genuine banknotes to their customers.

Consultation point D: Composition of the Local Recycling Review Group

Questions posed

D1. Do you agree that the ACBI should be a full member of Local Recycling Review Group? Is ACBI membership of Local Recycling Review Group the most appropriate way for the Scottish and Northern Ireland issuing banks to be represented?

D2. Please include any other feedback on the composition of Local Recycling Review Group.

Key response themes

Respondents agreed with the proposal that ACBI should be a full member of the Local Recycling Review Group.

1. One respondent highlighted the importance of obtaining feedback from their sector in any future changes

Response

(Theme 1) The Local Recycling Review Group will commit to regular liaison with each sector. The Code would not substantially change (including reporting requirements) without further consultation with industry.

About the Local Recycling Review Group

The Local Recycling Review Group, chaired by the Bank of England, will report to Code Sponsors on at least an annual basis on the level of uptake of the Code among stakeholders, feedback received, and suggested improvements that could be made.

The Review Group currently consists of representatives of the Association of Commercial Banknote Issuers, the Bank of England, the British Retail Consortium, Cash Services, LINK, and Payments UK. Other representatives will be added to the Group as necessary to ensure appropriate stakeholder representation.

More information about the members of the Review Group can be found as follows:

Association of Commercial Banknote Issuers: <http://www.acbi.org.uk/>

Bank of England: <http://www.bankofengland.co.uk/banknotes/Pages/default.aspx>

British Retail Consortium: http://www.brc.org.uk/brc_home.asp

Cash Services: <http://www.cashservices.org.uk/>

LINK: <http://www.link.co.uk>

Payments UK: <http://www.paymentsuk.org.uk/>

Timeframes for compliance with the Principles of the Code

Stakeholders in the cash cycle have widely differing business models but all stakeholders enjoy reputational benefits from ensuring compliance with the Code, as this supports public confidence in cash, fast transactions, and cash processing. The Code requires organisations to work towards the following implementation timeframes (Table 2):

<u>Bank of England notes</u>	By end of
Newly installed ATMs, or renewed contracts at existing ATM sites	March 2014
Self-service checkouts	September 2014
Existing ATMs achieving 500 or more cash transactions per month	September 2014
Existing non-merchant-fill* ATMs achieving 150 or more cash transactions per month	March 2016
All ATMs	March 2017
<u>Scottish and Northern Ireland issuing bank notes</u>	By end of
<i>Indicative reporting for ATMs and self-service checkouts</i>	<i>March 2018</i>
All ATMs and self-service checkouts	March 2019

* For these purposes, a 'merchant-fill' ATM is one where the cash loaded into the ATM comes directly from the merchant who hosts the ATM and is not processed by the ATM operator or any other third party before being loaded into the ATM. Any other ATM is considered 'non-merchant-fill'.