

# Currency

The Reserve Bank is responsible for ensuring that there are sufficient high-quality banknotes in circulation to meet the public's demand. This demand stems from the role of banknotes as a payment mechanism and store of wealth. To ensure that the public retains confidence in the capacity of banknotes to perform these roles, the Bank:

- ensures that sufficient banknotes are printed to meet public demand
- maintains the quality of banknotes in circulation by withdrawing old, used banknotes and replacing them with new banknotes
- conducts research to ensure that Australian banknotes remain secure against counterfeiting.

## Banknotes on Issue

At the end of June 2012 there were around 1.1 billion banknotes worth \$53.6 billion on issue. The \$50 and \$100 banknotes continue to account for the majority of banknotes on issue, with a combined share of 91 per cent of the value and 65 per cent of the number of banknotes in circulation.

### Banknotes on Issue \$ million

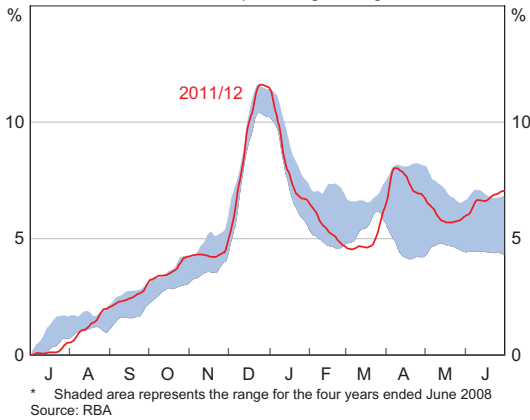
At end June	\$5	\$10	\$20	\$50	\$100	Total
2004	533	791	2 533	15 941	14 224	34 022
2005	539	837	2 584	16 740	14 924	35 624
2006	572	857	2 690	18 044	15 903	38 066
2007	591	894	2 846	19 228	16 730	40 289
2008	614	917	2 732	20 111	17 690	42 064
2009	644	954	2 651	23 721	20 117	48 087
2010	673	983	2 653	23 711	20 740	48 760
2011	731	1 010	2 796	24 288	21 234	50 059
2012	737	1 059	2 980	25 663	23 156	53 595

Source: RBA

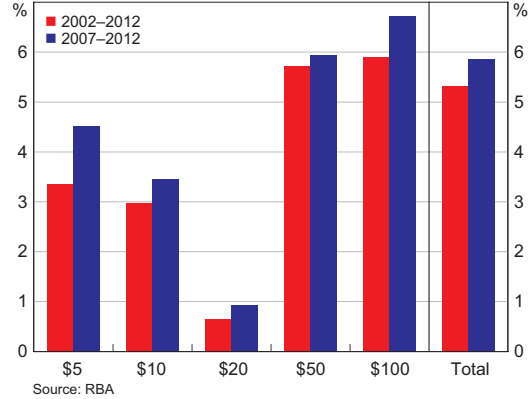
The value of banknotes on issue increased by 7.1 per cent in 2011/12. Following sharp growth in demand for banknotes immediately after the global financial crisis, and subdued growth in the ensuing two years, growth in banknote demand over the past year has returned to levels consistent with that experienced in the years leading up to the financial crisis.

The average annual rate of growth in the total value of banknotes on issue over the five years to June 2012 was 5.9 per cent, which is slightly above the average annual growth rate of 5.3 per cent over the past 10 years. Demand for all denominations of banknotes has been growing more strongly in recent years. The aggregate growth in banknotes on issue is driven by stronger growth in the high-value denominations.

### Banknotes in Circulation\* Year-to-date percentage change



### Banknotes in Circulation Average annual growth



## New Banknote Purchases

The Reserve Bank purchased 129 million banknotes from Note Printing Australia Limited (NPA) in 2011/12, 19 million fewer banknotes than in 2010/11. The Bank's purchases consisted of 29 million \$5 banknotes, 29 million \$10 banknotes, 40 million \$50 banknotes and 31 million \$100 banknotes. No \$20 banknotes were purchased.

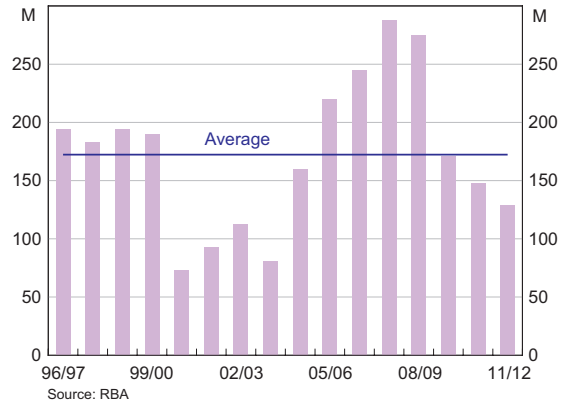
## Distribution

The Reserve Bank maintains a contingency holding of banknotes to meet seasonal fluctuations in demand, and to mitigate the risks associated with systemic shocks and production disruptions. The Reserve Bank and the major commercial banks have established arrangements to ensure that the commercial banks can access these banknotes to meet their customer needs. The commercial banks also have large banknote holdings at cash-in-transit company depots and their branches throughout the country to ensure there is sufficient stock to meet normal and unexpected demand.

As noted above, demand for banknotes has typically grown at around 5–6 per cent per year. However, the pattern of growth within each year is highly seasonal. The major commercial banks can purchase banknotes from the Reserve Bank throughout the year but, in general, the majority are purchased during the months leading up to Christmas and Easter. In January and after Easter, the commercial banks sell banknotes back to the Reserve Bank that are deemed fit for circulation but surplus to their requirements. In addition, throughout the year the commercial banks return to the Reserve Bank banknotes that they deem are not suitable for circulation (see below).

Over 2011/12, the Reserve Bank issued 243 million banknotes to the major commercial banks, of which 121 million had previously been in circulation and 122 million were new. On the other side, the Bank received about 182 million banknotes from the commercial banks in 2011/12, including 93 million surplus fit banknotes and 89 million banknotes deemed no longer fit for circulation.

### Banknote Purchases



## Banknote Quality

The Reserve Bank aims to maintain a high quality of banknotes in circulation in order to ensure they meet the functional requirements of the public, and to make it more difficult for counterfeits to be passed or remain in circulation. Achieving these objectives is important to maintaining public confidence in Australia's banknotes.

The commercial banks and cash-in-transit companies play an important role in achieving the Reserve Bank's quality objectives. For this reason, the Reserve Bank provides incentives for the major banks and cash-in-transit companies to remove unfit banknotes from circulation. These arrangements enable cash industry participants to invest in banknote processing equipment, which enhances their ability to sort banknotes and remove poor-quality banknotes from circulation.

Banknotes that are determined to be unfit by the commercial banks and cash-in-transit companies are returned to the Reserve Bank's National Note Processing and Distribution Centre (NNPDC), where their authenticity and quality is confirmed. Banknotes that are confirmed as being unfit are destroyed and fit banknotes are packaged for reissue. Of the banknotes returned to the NNPDC and processed during 2011/12, 88.9 million were deemed unfit and destroyed.

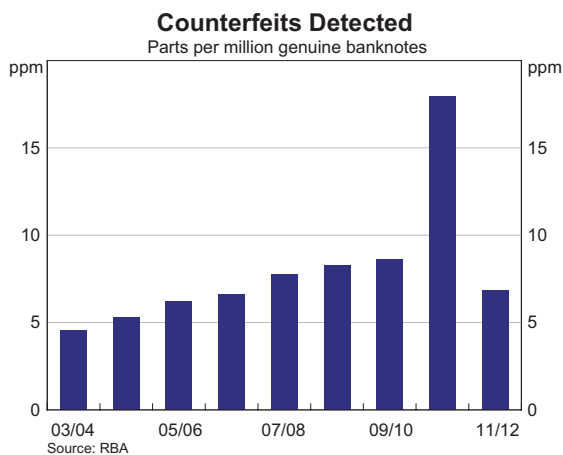
Periodically, banknotes are damaged in circulation beyond the normal levels of wear and tear. The Reserve Bank's policy is to pay value for severely damaged banknotes that can be verified as being genuine. This includes banknotes that are damaged or contaminated as a result of natural disasters. Most damaged banknotes receive full value, but where a large piece of a banknote is missing, partial value is paid.

All damaged and contaminated banknotes are returned to the Reserve Bank for validation, assessment and destruction. In 2011/12, the Reserve Bank processed around 16 900 damaged banknote claims and paid out \$6.1 million. This represents a significant decline from the \$11.6 million in claims paid in 2010/11, which was boosted by a large number of high-value claims resulting from natural disasters in that year.

## Counterfeiting in Australia

In 2011/12, a total of 7 781 counterfeits were detected in circulation with a nominal value of \$410 795. This corresponds to around 6.9 counterfeits detected per million genuine banknotes in circulation, a level that is low by international standards. The level of counterfeiting declined substantially from the previous year, following the arrests in November 2010 of several persons allegedly associated with a well-organised criminal operation in New South Wales. The number of counterfeits detected has now returned to levels consistent with previous experience.

The Reserve Bank works closely with law enforcement agencies to monitor trends in counterfeiting and identify emerging threats. The Bank's Counterfeit Examination Laboratory also assists police by providing counterfeit examination services and preparing expert witness statements and court testimonies.



## Counterfeit Banknotes in Australia 2011/12

	\$5	\$10	\$20	\$50	\$100	Total
Number	13	56	186	6 923	603	7 781
Nominal value (\$)	65	560	3 720	346 150	60 300	410 795
Parts per million	0.1	0.5	1.3	13.6	2.7	6.9

Source: RBA

### Community Liaison

The Reserve Bank is actively involved in a number of banknote awareness initiatives involving law enforcement agencies and the community. During the year, counterfeit information sessions were conducted with state police in New South Wales, South Australia and the Northern Territory. Presentations have also been conducted for business, school and community groups with the aim of increasing knowledge about banknotes in the community.

### Banknote Research and Development

The Reserve Bank conducts a research and development program that examines innovative technologies and develops features that can enhance the security of polymer banknotes. As part of this program, the Bank collaborates with a range of third parties, including private companies, research institutions and universities. The Reserve Bank also cooperates with other central banks to explore issues and develop research programs regarding counterfeit deterrence.

In 2011/12, the Reserve Bank continued its involvement in two major international initiatives related to the combat of counterfeiting: the Central Bank Counterfeit Deterrence Group, a working group of central banks and banknote printing authorities that monitors and responds to threats posed by emerging counterfeiting technologies; and the Reproduction Research Centre, an anti-counterfeiting testing facility operated by a small group of central banks.

### Numismatic Banknote Sales

The Reserve Bank conducted numismatic banknote sales in July and August 2012 for all denominations of banknotes produced in 2011. These banknotes were sold to the public at fixed prices during a six-week sale period.

### Note Printing Australia

Note Printing Australia Limited (NPA) is a wholly owned subsidiary of the Reserve Bank that produces banknotes and operates the NNPDC on behalf of the Bank. NPA operates under a charter established by the Reserve Bank Board. Specifically, NPA's prime function is the efficient and cost-effective production of Australian banknotes of high quality and security, in accordance with the specifications and requirements of the Bank. The charter also permits NPA to undertake other 'non-core' activities, including the development and production of passports for the Department of Foreign Affairs and Trade (DFAT), as well as the production of banknotes for other issuing authorities and some other security products. In recent years, these activities have included the production of banknotes for some countries in the Asia-Pacific region. In all of these cases, NPA dealt directly with the relevant central banks.

NPA is governed by a Board of Directors appointed by the Reserve Bank. As at 30 June 2012, the Board comprised five Bank executives: Michele Bullock, Assistant Governor (Currency) as Chair; Keith Hall, Assistant Governor (Banking and Payments); Darryl Ross, Chief Financial Officer; Lindsay Boulton, Head of Banking Department; and Michelle McPhee, Head of Risk Management. The Chief Executive Officer of NPA is Bernhard Imbach.

In 2011/12, NPA delivered 129.1 million banknotes for Australia and 139.3 million banknotes to other countries, including Chile, Brunei and Papua New Guinea. NPA also produced 1.8 million passports for DFAT over the year.

NPA recorded a loss after tax of \$1.9 million in 2011/12, compared with a profit of \$4.4 million in 2010/11. The financial accounts of NPA are consolidated with those of the Reserve Bank.

## Securrency

Securrency International Pty Ltd manufactures polymer substrate for banknotes used in Australia and many other countries. It is a joint venture between the Reserve Bank and Innovia Films, a UK-based company that makes the base polymer film used by Securrency to manufacture its substrate products.

Securrency is governed by a Board of Directors, comprising equal numbers of directors appointed by the two joint-venture partners and the Managing Director. At present, the Reserve Bank appointed directors are Darryl Ross (Chairman) and John Akehurst, a non-executive member of the Reserve Bank Board.

In late 2010 the Reserve Bank and Innovia Films announced their intention to undertake a joint sale of the company. This joint process was terminated late in 2011, after Innovia advised the Bank that it was no longer a seller. The Bank continues to explore divestment of its interest in Securrency.

## Proceedings against NPA and Securrency

As noted in the 2011 Annual Report, NPA and Securrency were charged in July and August 2011 with conspiring to bribe public officials in a number of countries during the period between 1999 and 2004. Additional charges were laid against NPA in September 2011. A number of former employees of NPA and Securrency, including a former Chief Executive of each of these companies, were also charged. Over 2011/12, NPA and Securrency continued to cooperate with the Australian Federal Police and the Commonwealth Director of Public Prosecutions.

