

Currency

The Reserve Bank is responsible for ensuring that there are sufficient high-quality banknotes in circulation to meet public 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:

- prints sufficient banknotes 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 2013 there were 1.2 billion banknotes worth \$56.9 billion in circulation. Although \$5, \$10 and \$20 banknotes accounted for 35 per cent of the number of banknotes in circulation, they represented only 9 per cent of the value of banknotes in circulation.

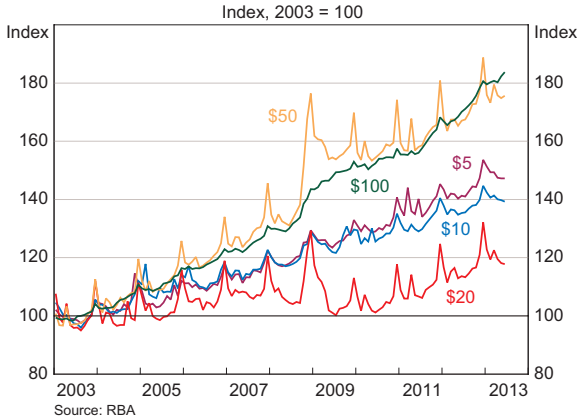
Banknotes on Issue \$ million

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	24 287	21 234	50 059
2012	737	1 059	2 980	25 663	23 156	53 595
2013	768	1 090	3 089	26 987	25 009	56 943

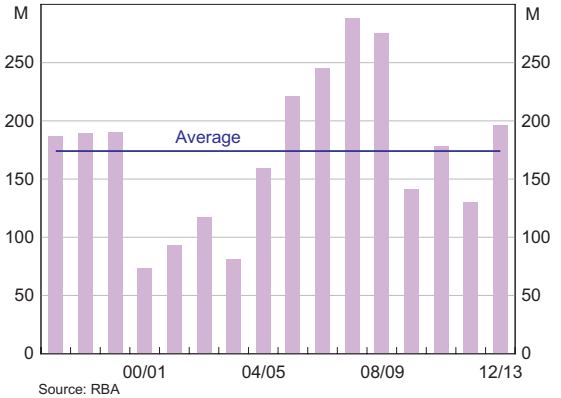
Source: RBA

The value of banknotes in circulation increased by 6.2 per cent over 2012/13. This is broadly in line with the long-term trend growth rate. By denomination, demand for \$100 and \$50 banknotes has been growing strongly in recent years, with growth of 8.0 and 5.2 per cent, respectively, over 2012/13, while growth in demand for lower-denomination banknotes was between 3 and 4 per cent.

Value of Banknotes in Circulation



Banknote Purchases



New Banknote Purchases

The Reserve Bank purchased 197 million banknotes from Note Printing Australia Limited (NPA) in 2012/13, an increase of 68 million from 2011/12. The Bank purchased new banknotes for all denominations: 20.1 million \$5 banknotes, 26.6 million \$10 banknotes, 30.1 million \$20 banknotes, 80.1 million \$50 banknotes and 40.1 million \$100 banknotes.

Distribution

Cash-in-transit companies manage banknote holdings on behalf of commercial banks in approved cash centres across Australia, to ensure that there is sufficient stock to meet public demand. Banknotes are also held by the Reserve Bank to meet seasonal fluctuations in demand and mitigate the risks associated with systemic shocks and production disruptions. The Bank has established agreements with the commercial banks that ensure their access to these banknotes.

In 2012/13 the Reserve Bank issued banknotes worth \$8.9 billion, \$3.6 billion of which had previously been in circulation and were deemed to be fit for purpose. Banknotes worth \$5.6 billion were returned to the Bank, of which banknotes worth \$3.6 billion were deemed to be suitable for reissue and banknotes worth \$2.0 billion were deemed unfit for recirculation.

The Reserve Bank aims to maintain a high quality of banknotes in circulation to ensure public confidence in Australia's banknotes. High-quality banknotes reduce problems in banknote acceptance equipment and make it more difficult for counterfeits to be passed.

A major contribution to the Reserve Bank achieving this objective comes from the Note Quality Reward Scheme (NQRS). Under the NQRS, the Bank provides incentives for commercial banks and cash-in-transit companies to remove unfit banknotes from circulation and return them to the National Note Processing and Distribution Centre (NNPDC). At the NNPDC the authenticity and quality of these banknotes is confirmed. Banknotes that are categorised as being unfit are destroyed while fit banknotes are reissued. Of the banknotes returned to the NNPDC and processed during 2012/13, 74.5 million (96 per cent) were identified as being unfit and were destroyed.

The Reserve Bank also removes unfit banknotes from circulation through its Damaged Banknote Facility. Under this facility, the public can request that the Bank examine and verify their damaged and contaminated banknotes. Payment is then made, based on the assessed value of each banknote claim. In 2012/13, the

Bank processed 14 765 damaged banknote claims and made \$10.4 million in payments. This represented a \$4.3 million increase on 2011/12, largely as a result of \$2.6 million of claims arising from floods in Queensland and New South Wales.

Counterfeiting in Australia

In 2012/13 a total of 12 125 counterfeits were detected in circulation, with a nominal value of \$730 700. This corresponds to around 10 counterfeits detected per million genuine banknotes in circulation. While this represents an increase from the previous year, this level remains low by international standards and is similar to levels experienced in Australia in recent years.

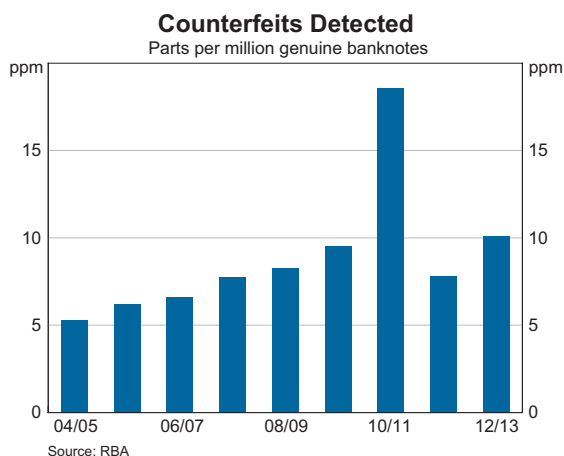
Counterfeit Banknotes in Australia 2012/13

	\$5	\$10	\$20	\$50	\$100	Total
Number	32	25	187	9 231	2 650	12 125
Nominal value (\$)	160	250	3 740	461 550	265 000	730 700
Parts per million	0.2	0.2	1.2	17.2	10.9	10.1

Source: RBA

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

During 2012/13 the Bank conducted a Counterfeit Deterrence Workshop, which was attended by representatives from the Australian Federal Police, New South Wales Police, Victoria Police, large retailers



Participants at the Counterfeit Deterrence Workshop examine banknote security features

and financial institutions. The workshop provided participants with an opportunity to discuss counterfeit deterrence initiatives as well as develop a broader understanding of banknote security features.

Next Generation Banknote Project

In September 2012 the Reserve Bank announced plans to upgrade the security of Australia's banknotes as part of the Next Generation Banknote (NGB) project.

The upgraded banknotes will incorporate a number of new features so that Australia's banknotes remain secure. While Australia has experienced relatively low levels of counterfeiting – both in absolute terms and compared with other countries – the Reserve Bank's assessment is that a security upgrade is necessary to ensure that Australia's counterfeiting level remains low into the future. The new banknotes will retain many of the key design elements of the current banknote series, such as their colour, their size and the portraits, but some design changes will be necessary to accommodate the new security features.

Considerable work has already been undertaken on this project since it was established in 2007, including the development and review of banknote designs and production trials of new security features. It is anticipated that it will be several years before the first of the upgraded banknotes will be issued and, as was the case for the current series of banknotes, the issuance of the denominations will be staged across a number of years. The time required to complete the project reflects the complexity of the process of designing and producing a new banknote and the need to make sure that the design produces a secure, functional and durable banknote. An important element of this process is the consultation with relevant stakeholders to ensure that Australia's banknotes continue to meet community needs.

To ensure the ongoing security of Australia's banknotes, it is essential that appropriate levels of investment in the NGB series occurs. As at the end of June 2013, \$11.3 million has been spent on design, development and testing and it is expected that the total cost of this work will be around \$44 million.

Banknote Research and Development

The Reserve Bank's research and development program seeks to ensure Australian banknotes remain secure against counterfeiting by identifying innovative technologies and developing new security features for



Michele Bullock, Assistant Governor (Currency), speaking at an NGB Steering Committee meeting with Keith Hall, Assistant Governor (Banking and Payments), left, and Frank Campbell, Assistant Governor (Corporate Services), right

polymer banknotes. To achieve this objective, the Bank collaborates with a range of third parties, including universities, public and private companies, research institutes and other central banks. It also contributes to several international forums related to banknote security, including the Central Bank Counterfeit Deterrence Group, which assesses threats posed by emerging counterfeiting technologies, and the Reproduction Research Centre, which provides facilities to test anti-counterfeiting technologies.

The Banknote Research and Development team is based in the NPA building in Craigieburn, Victoria, although the staff remain part of, and report directly to, the Bank's Note Issue Department in Head Office. In 2012/13, the research program focused on the development of the NGB series. While extensive trials have been conducted over previous years, significant amounts of testing and development are still underway to ensure the new features are secure, durable and can be implemented in the banknote production process.

Community Liaison

The Reserve Bank is actively involved in a number of banknote awareness initiatives involving law enforcement agencies, retail associations and the community. The Bank works with these stakeholders to assist with their training and education requirements and delivers presentations on relevant topics. More than 70 presentations were made during 2012/13 to business, school and community groups with the aim of increasing knowledge about banknotes in the community.

A banknotes internet microsite was launched in August 2012, providing the public with information about Australia's banknotes, including through a range of interactive tools that allow users to explore the security and design features found on the current banknote series. The site incorporates games and other educational material to cater to a wide range of age groups, along with production and security information. In May 2013, the site was named 'Best New Currency Website' at the Excellence in Currency Awards established by the International Association of Currency Affairs.

Numismatic Banknote Sales

The Reserve Bank conducted numismatic banknote sales in July and August 2013 for all denominations of banknotes produced in 2012. New banknotes were also offered for other denominations from the most recent year of print. These banknotes were sold to the public at fixed prices during a six-week sale period.

Note Printing Australia Limited (NPA)

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 reviewed and approved by the Reserve Bank Board. Specifically, NPA's prime function is the efficient and cost-effective production of high-quality and secure Australian banknotes, in accordance with the specifications and requirements of the Bank. The charter also permits NPA to undertake other activities, including developing and producing passports for the Department of Foreign Affairs and Trade (DFAT), as well as producing 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 and, in all 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 2013, the Board comprised four Bank executives and a member of the Reserve Bank Board: Michele Bullock, Assistant Governor (Currency) as Chair; Keith Hall, Assistant Governor (Banking and Payments); Lindsay Boulton, Head of Banking Department; Michelle McPhee, Head of Risk Management; and Heather Ridout AO. The Board has an Audit

Committee, whose membership comprises Keith Hall (Chair), Lindsay Boulton and an external member, Alan Beckett, who is a company director and former senior audit partner of a major accounting firm with extensive experience in the corporate sector, including manufacturing.

NPA is headed by its Chief Executive Officer, Bernhard Imbach. There are six business units: Financial Services (headed by the Chief Financial Officer), Manufacturing Operations, Passports Business, Quality Management, Risk and Security, and Human Resources. The CEO and the heads of these business areas constitute NPA's Executive Committee. In addition, NPA has a Risk and Compliance Committee, whose membership comprises the CEO, heads of the business areas and the Business Resilience Manager. As at the end of June 2013, NPA employed 234 permanent staff.

In 2012/13, NPA delivered 196.9 million Australian banknotes to the Reserve Bank. Those banknotes were delivered under a contract entered into in 2011. NPA also provided banknote distribution and banknote processing services to the Bank during the year, under a contract entered into in 2001. The aggregate amount paid by the Bank to NPA in 2012/13 for the supply of banknotes and related services under the above contracts was \$50.8 million. No decisions were undertaken by the Reserve Bank Board in 2012/13 in relation to those supply contracts.

In addition, NPA delivered 330.1 million banknotes to other countries in 2012/13, including Singapore, Brunei, New Zealand and Papua New Guinea. NPA also produced 1.4 million passports for DFAT over the past year.

NPA recorded a loss after tax of \$865 000 in 2012/13, compared with a loss of \$1.9 million in 2011/12. The financial accounts of NPA are consolidated with those of the Reserve Bank.

Securrency

In February 2013, the Reserve Bank sold its 50 per cent shareholding in Innovia Security Pty Ltd (formerly Securrency International Pty Ltd – 'Securrency') to Innovia Films, a UK-based film manufacturer that held the other 50 per cent in Securrency. Securrency manufactures polymer substrate for banknotes used in Australia and many other countries.

The sale was in accordance with the Reserve Bank's longstanding intention to sell its shareholding once Securrency had established itself as a viable long-term supplier in the international market for banknote substrate. A sale process was commenced in late 2010, with the Reserve Bank and Innovia Films both announcing their intention to undertake a joint sale of Securrency. Subsequently, Innovia Films advised the Bank that it no longer wished to sell its 50 per cent shareholding and made an offer to purchase the Bank's shares.

Under the terms of the sale, the Reserve Bank had, at the end of June 2013, received payments of approximately \$75 million for its shares, which exceeds the value of the Bank's investment of \$54 million in Securrency in its 2011/12 financial accounts. Additional payments may be made to the Bank over following years, including if Securrency exceeds certain earnings benchmarks. As part of the sale, NPA and the Reserve Bank entered into a long-term supply contract with Securrency for the provision of polymer substrate, including for Australia's next generation of banknotes.