

# 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 a 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; and
- conducts research to ensure that the currency remains secure against counterfeiting.

## Banknotes on Issue

At the end of June 2011 there were 1.1 billion banknotes worth \$50.1 billion on issue. This is equivalent to around 48 banknotes worth \$2 227 for every Australian. The two highest denominations continued to account for the majority of banknotes on issue. In particular, the \$50 denomination accounted for around half the value and 45 per cent of the number of banknotes on issue, while the \$100 denomination accounted for 42 per cent of the value and 20 per cent of the number of banknotes on issue.

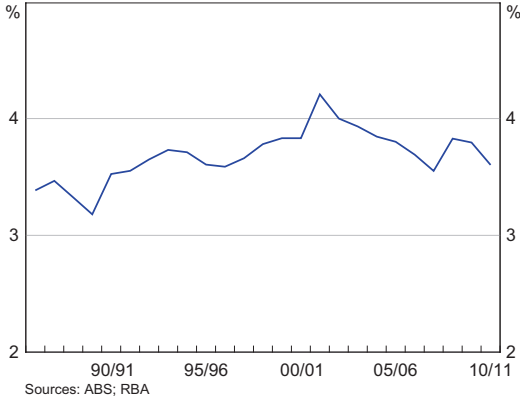
### Banknotes on Issue \$ million

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

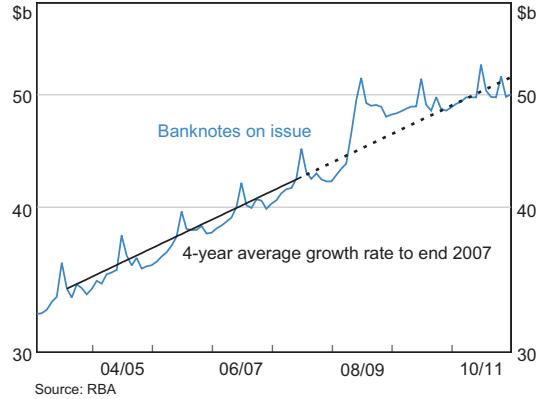
Source: RBA

Historically, the growth in the value of banknotes on issue has tended to reflect growth in nominal GDP. In the second half of 2008, however, banknote demand increased sharply as a result of heightened public concerns associated with the global financial crisis. Since then, the growth in banknotes on issue has been subdued, and it was only towards the end of 2010 that the value of banknotes on issue returned to levels consistent with the long-run trend evident before the financial crisis.

**Value of Banknotes on Issue**  
Per cent of GDP



**Banknotes on Issue**  
Log scale



## Distribution

The Reserve Bank manages the issuance and distribution of banknotes to commercial banks. Commercial banks purchase banknotes directly from the Reserve Bank. Banknotes are then stored by the commercial banks at approved cash centres located throughout Australia to ensure there is sufficient stock to meet normal and unexpected public demand. The Reserve Bank also maintains a contingency holding of banknotes to meet seasonal fluctuations in demand, and to mitigate the risks associated with financial shocks and production disruptions.

## New Banknote Purchases

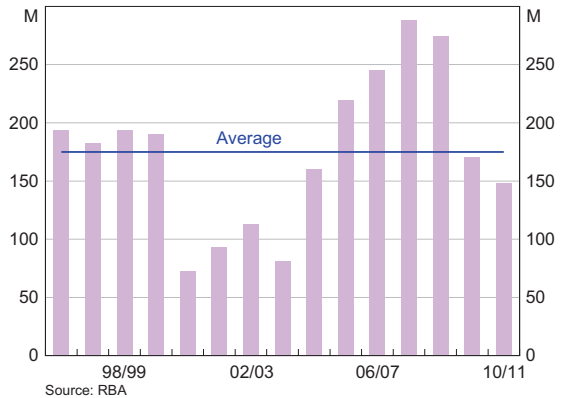
With demand for banknotes growing more slowly since the financial crisis, the Reserve Bank's purchases of banknotes from Note Printing Australia Limited (NPA) in 2010/11 were 22 million fewer than the previous year, at 148 million banknotes. Only \$50 banknotes were purchased, as the Bank had sufficient stocks of the other denominations to meet public demand.

## Banknote Quality

In order to maintain a high quality of banknotes in circulation, the Reserve Bank withdraws unfit banknotes and issues new banknotes. This ensures the efficient handling of banknotes by the community and processing through banknote acceptance equipment such as ticketing machines. Maintaining the quality of banknotes in circulation also assists the public in identifying counterfeits.

The commercial banks and armoured car companies play an important role in achieving the Reserve Bank's quality objectives. As such, the Reserve Bank provides incentives for commercial banks and armoured car companies to remove unfit banknotes from their holdings, and to invest in banknote

**Banknote Purchases**



processing equipment. Banknotes deemed unfit by the commercial banks and armoured car companies are returned to the National Note Processing and Distribution Centre (NNPDC), where they are processed to confirm their quality and authenticity. Returned banknotes verified as fit are reissued, while unfit banknotes are destroyed. Of the 106 million banknotes returned to the NNPDC during 2010/11, 82 million were destroyed.

Some 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 authenticated as genuine Australian banknotes. This includes banknotes significantly damaged or contaminated as a result of natural disasters. Most damaged banknotes receive full value, but where a large piece of the banknote is missing an appropriate partial value is paid.

All damaged banknotes are returned to the Reserve Bank for assessment and destruction. In 2010/11, the Reserve Bank processed around 18 500 damaged banknote claims, and paid out \$11.6 million, which is \$4.9 million more than in the previous year. Of the damaged banknote claims processed in 2010/11, 249 claims worth \$7.6 million were for banknotes that had been contaminated as a result of the floods in Queensland, Victoria and New South Wales.



Hundreds of claims were received at the Damaged Notes Laboratory in Craigieburn after the Queensland floods early in 2011, including these banknotes covered in mud from Caltex in Goodna, west of Brisbane

## Counterfeiting in Australia

The level of counterfeiting in Australia was higher in 2010/11 compared with previous years, with a total of 17 802 counterfeits detected. This corresponds to around 16 counterfeits detected per million genuine banknotes in circulation. The \$50 banknote continues to be the most counterfeited denomination, accounting for 93 per cent of the counterfeits detected in 2010/11. Notwithstanding the increase last year, counterfeiting activity remains low compared with most other countries.

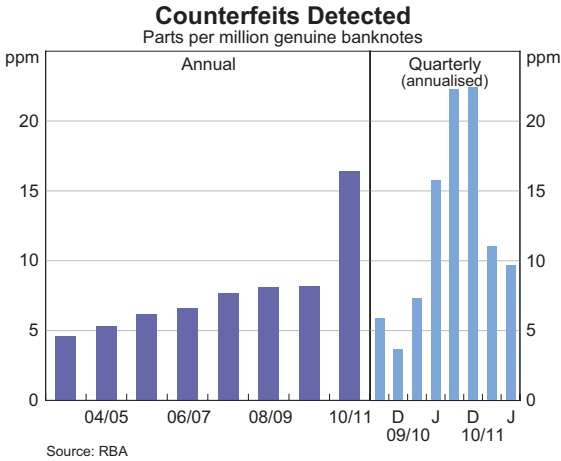
### Counterfeit Banknotes in Australia 2010/11

	\$5	\$10	\$20	\$50	\$100	Total
Number	28	175	567	16 568	464	17 802
Nominal value (\$)	140	1 750	11 340	828 400	46 400	888 030
Parts per million	0.2	1.7	4.0	33.8	2.2	16.4

Source: RBA

The increase in counterfeiting in 2010/11 is attributable to alleged activities of a well-organised criminal operation in NSW. The arrests of several persons and the seizure of more than 1 800 counterfeits in November 2010 were the culmination of a seven-month investigation by the Australian Federal Police and NSW Police, which involved the Reserve Bank, the United States Secret Service, the NSW Crime Commission as well as the Australian Customs and Border Protection Service. Following the arrests, counterfeiting rates have fallen sharply, returning to levels consistent with previous experience.

This incident highlights the importance of the Reserve Bank working closely with law enforcement agencies in Australia and overseas, providing counterfeit examination services to these agencies, and educating the



public about banknotes and counterfeit detection. It also highlights the dangers posed by modern reproduction technologies to the integrity of banknotes in circulation.

The Reserve Bank works closely with other central banks and the security printing industry to gain a better understanding of the threat posed by emerging reproduction technologies available to counterfeiters, and to develop new security features. As part of its efforts to combat counterfeiting, the Reserve Bank is involved in the Central Bank Counterfeit Deterrence Group (a group of 32 central banks that investigates counterfeiting threats and develops strategic solutions) and the Reproduction Research Centre (an anti-counterfeiting laboratory operated by a small number of central banks). In the

assessment of new technologies for banknote security and the development of innovative features, the Bank also collaborates with a number of private companies, research institutions and universities.

## Numismatic Banknote Sales

The Reserve Bank conducted a numismatic banknote sale in July and August 2011 for all denominations of banknotes produced in 2010. 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), and other security products as well as the production of banknotes for other issuing authorities. In recent years, these activities have included the production of banknotes for some countries in the Asia-Pacific region.

NPA is governed by a Board of Directors appointed by the Reserve Bank. As at 30 June 2011, 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 2010/11, NPA produced 148 million banknotes for Australia and 320 million banknotes for a number of other countries, including Brunei, Chile, Papua New Guinea and Vanuatu. NPA also produced 2.7 million passports for DFAT over the year.

NPA earned a profit after tax of \$4.4 million in 2010/11, compared with a profit of \$4.3 million in 2009/10. The financial accounts of NPA are consolidated with those of the Reserve Bank.

## Securrency

Securrency 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 which manufactures the base polymer film used by Securrency to manufacture its substrate products.

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

Securrency achieved a profit after tax of \$2.0 million in 2010, on revenues of \$128.7 million. These results compare with a profit of \$24.1 million and revenue of \$172.5 million in the previous year. The Reserve Bank equity accounts for its interest in Securrency.

On 23 November 2010, the Reserve Bank and Innovia Films announced their intention to undertake a joint sale of the company, after having been made aware of strong interest from potential buyers and following Innovia's decision that it wished to sell its half share in the company. A sale process has commenced.

## Proceedings against NPA and Securrency

In July 2011, charges were laid against NPA and Securrency, which, in summary, allege that between 1999 and 2003, the two companies and a number of individuals had engaged in conspiracy to bribe foreign public officials in Indonesia and Malaysia. In August 2011, a further two charges were laid against Securrency for similar alleged conduct relating to Vietnam in the period between 2001 and 2004. A number of former employees of the companies, including two former chief executives, were also charged. The Australian Federal Police (AFP) stated on 1 July 2011 that the charges against the companies result from the alleged actions of former senior managers of the companies.

These charges follow an investigation that resulted from a referral to the AFP by the Board of Securrency when allegations were raised by the media in May 2009 about Securrency's use of overseas agents. The AFP's inquiries were subsequently widened to include the use of overseas sales agents by NPA. The companies' Boards and the Reserve Bank have extended their full support to the AFP inquiry and continue to do so. The companies are considering, in consultation with the authorities, their responses to the charges laid against them.

The Governor issued a statement on 1 July 2011, saying that the Reserve Bank deeply regrets that the governance arrangements and processes in the companies at the time were not able to prevent or detect the alleged behaviour that led to the charges. That statement noted that, over recent years, the Reserve Bank and the two companies have taken numerous steps to tighten controls and strengthen governance:

- those charged had all left the companies prior to the charges being laid;
- the use of sales agents has ceased at both companies;
- policies and procedures at both companies have been overhauled; and
- the Reserve Bank added executive resources in the currency area and replaced its representatives on the Boards of the two companies, drawing all of its appointees from the Bank's executive or the Reserve Bank Board.