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DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS



EUROPEAN CENTRAL BANK
EUROSYSTEM
DIRECTORATE BANKNOTES

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Euro Cash Users Group (ECUG)

Summary report of the 15th meeting
held on 29 June 2017 at the European Central bank in Frankfurt

Co-chairs: Ms Schneeberger (ECB) and Mr Khouw (European Commission) welcomed the participants. The agenda was adopted.

1. Euro banknotes: updates on circulation developments; second euro banknote series (ES2); recirculation/cashback

The ECB gave a presentation. By end-May 2017 the euro banknote circulation value, of which a major part was used as store of value, was EUR 1.1 trillion. Following the announced issuance stop of the €500 around end-2018, demand had partially shifted to neighbouring denominations. It is estimated that around one-third of the euro banknotes is being used in regions outside the euro area, predominantly in countries surrounding the euro area. Banks/cash-in-transit (CIT)-companies have become in absolute and relative terms stronger involved in automated cash handling and BN recirculation. In 2016, those commercial actors had a share of 40% in the recirculation of banknotes with 60% having been recirculated by the national central banks of the Eurosystem (NCBs). Recirculation shortens the cash cycle and thus contributes to its efficiency.

The recent introduction of the €50 banknote of the Europa series (ES2) had been smooth; end-May roughly every tenth banknote in circulation was an ES2 €50.

2. Study on the use of cash by households (preliminary results)

The ECB gave a presentation on the study on the use of cash by households. Its objective was to estimate the value and volume of cash (and non-cash) payments at points of sale (POS) in all euro area countries. The results showed that in 2016 cash was used in over 75% of the number of transactions at POS and that it had been used as means of payment in roughly half of these transactions in value terms. The study was aimed to be published in autumn 2017.

3. Policy measures and views on the use of cash (other than IBNS-related)

a) *Presentation by COM-ECFIN*

- i. *Proposal to amend Regulation on cash declarations entering/leaving EU*
- ii. *Proposal to amend AML Directive*
- iii. *Analysis of possible EU-wide cash payment restrictions: survey and outstanding impact assessment*

The Commission explained that the fight against terrorism is an EU and MS responsibility. The overall objectives of the EU initiatives in this field are: 1. adapting the existing rules to terrorist threats; 2. updating the EU policy to align it with the international standards. Against this background the Commission accepted the request of the Council to assess the relevance of the introduction of cash payment limits.

The results of the survey on cash payment restrictions are available on the Commission's webpage. The individual replies can be consulted even if they are anonymous and a file with summary statistics can be extracted. The majority of responses came from Germany, France and Austria. The outcome has been incorporated in an Impact Assessment. Following ESTA's question, the Commission clarified that a distinction could be made between responses from citizens and responses from associations.

The Association of German Banks said that banks live from customers; therefore as long as customers ask for cash, banks will provide cash. The EPC agreed with that and added that the problem is related to the cost of cash. Banks and the other stakeholders, including EU actors should deal with cash issues together and come up with better processes.

BEUC highlighted that freedom of choice is important as consumers have different behaviours – some like cash, some do not. At the same time, it is important to understand the issue of legal tender: what exactly does it cover?

The Italian Banking Association highlighted the importance of understanding how people use cash and why. The Commission stressed that the use of cash will be part of the Impact Assessment.

b) *Presentation by ESTA: "Recurrent negative connotation of cash"*

ESTA stressed that there was a very limited role of cash in terrorist actions. The nature of terrorist financing transactions is legal, which would make it difficult to trace the cash associated with terrorism. Also, cash limitations put in place in Member States were aimed to fight against tax evasion – and not terrorism financing. EU harmonisation measures in place in Member States would not help in any way achieving an objective for which they were not designed.

EURICPA stressed that all negative connotations on cash have to be eliminated. If cash payments were banned this would not have any impact on terrorism. One idea would be that cash restrictions should be put in place only in those countries having problems with tax evasion.

c) *Position paper by EURICPA: "Why cash is essential to the European economy"*

EURICPA listed the reasons why cash remains an essential element of the European economy: the democratic and social inclusive nature of this means of payment, its contribution to the achievement of the European Single Market, the protection it grants to the consumers privacy, safe transactions.

The association of cash with terrorism is, in EURICPA's view, a false and old-fashioned belief which contributes to damage the reputation of cash. Cash restrictions will not help to fight terrorism and will be detrimental to the economy.

The Commission explained that the EU Treaty is neutral on cash and non-cash and the Commission's view on cash will always be balanced, without any preference for one or another means of payment.

4. Policy of and views on the use of Intelligent Banknote Neutralisation Systems (IBNS)

The ECB gave a presentation on the envisaged policy on the detection and withdrawal of euro banknotes neutralised by anti-theft devices of which ink-staining IBNS (intelligent banknote neutralisation systems) were the most common devices used. The policy foresees that NCBs would only redeem the value of a neutralised banknote to its legitimate owner. This should incentivise commercial actors involved in the recirculation of euro banknotes to detect such notes in order not to credit them to the account of the depositor. NCBs would adapt their sorting machines to detect IBNS notes in their sorting machines so that the notes would no longer pass as unfit and they would no longer be credited to depositing banks. Cash stakeholders and the general public would be informed about the policy.

Mr Milner (EURICPA) said that IBNS manufacturers which are part of EURICPA would voluntarily integrate IR pigments in the inks so as to enable their detection by recirculation/back-office sorting machines. The ECB confirmed that the Cash Efficiency Working Group of the European Payments Council would be involved in the ECB's communication measures on the above policy.

5. Coin matters

a) *Production, issue and cost efficiency of 1 and 2 euro cent coins and results of eurobarometer polls 2014-16 (COM-ECFIN)*

b) *Rounding of final sum of cash payments to the closest 5 euro cent: latest trends (COM-ECFIN)*

The Commission reminded the participants that the Communication of 2013 highlighted four possible scenarios concerning the issuance of the 1 and 2 euro cent, out of which one was to seek less costly production of these two small denominations. Another important scenario was the discontinuation of the 1 and 2 euro cent issuance. In 2013 the Council opted for the cost-efficiency

scenario and euro-area Mints have in the meantime improved technology to produce as of end 2017 the 1, 2 and 5 cent at lower costs.

Nevertheless, most of the "new" 1 or 2 euro cent will be lost as people keep them in piggy banks rather than spending them. Moreover, the Eurobarometer has been stable between 2014-16 with around 60% of the respondents in favour of abolishing 1 and 2 euro cent.

The Roadmap on the Communication on latest developments in relation to euro coins aims to inform stakeholders about the topics to be potentially addressed in the new Communication. Taking into account feedback from stakeholders the Commission will prepare the Communication, which is likely to be adopted in the first half of 2018.

The EPC stressed that if rounding rules are to be decided then they should be harmonised at EU level.

BEUC drew the attention on the fact that when a topic is not on the table, the Eurobarometer results might not be the same as when the topic is of current interest.

c) EPC position on collector coins

It was decided that the item would not be discussed in this meeting.

6. Counterfeiting of euro banknotes and coins: recent developments

The ECB presented the development of euro banknote counterfeiting, which had recently been rather stable at 50,000 to 60,000 pieces per month. Counterfeiters had been concentrating on the most common ATM/transaction denominations (€20 and €50). The share of high quality counterfeits was negligible. EC/ETSC presented the figures of euro coin counterfeits detected in circulation and received at Coin National Analysis Centres (CNACs) during the period from 1 April 2016 until 31 March 2017, as recorded on the Counterfeit Monitoring System (CMS). The total number of 151,468 represents an increase of 0.8%, compared to the figure of the previous 12-month period ending end-2016. Moreover, ETSC presented cases of medals and tokens similar to euro coins, assessed in accordance with Council Regulation (EC) No 2182/2004 and updated the group for actions taken with regard to the implementation of Regulation (EU) 1210/2010 of the European Parliament and of the Council, concerning authentication of euro coins and handling of euro coins unfit for circulation.

The Commission gave also an overview of the work of the European Technical and Scientific Centre for coins. The ETSC's main task is to analyse and classify each new type of counterfeit euro coin and to assist national analysis centres and law enforcement authorities.

7. 5-year-review of the Regulation on cross-border CIT

The Commission explained that the cross-border transport of euro cash by road is a small market and therefore hardly any use is made of Regulation 1214/2011 on the professional cross-border transport of euro cash by road between euro area Member States (CIT¹ Regulation). What is more, various national rules are still applying. As a consequence, Member States have a lot of leverage to organise their market. A report on the implementation of the CIT Regulation was published after 5 years as requested in Article 26 of the CIT Regulation which makes some practical proposals on how to make better use of the current legal framework. However, the report states there is no need to review the instrument for the moment.

8. Any other business

a) Cost studies

The ECB informed about initiated studies which are intended to provide orientation for enhancing the performance of the cash cycle, i.e. a qualitative and a quantitative cost study. The former should show inefficiencies in the cash supply chain, inter alia via NCB interviews of cash stakeholders, while the latter would show the societal costs of cash compared to other means of payment. The qualitative study would most likely be carried out in Q4 2017/Q1 2018, while the quantitative cost study would most likely be carried out in the second half of 2018, based on 2017 data.

b) Meeting frequency

It was agreed to convene ECUG meetings every two years.

Annex: List of participants

¹ CIT = cash-in-transit

Annex

List of participants

<u>Participant's organisation</u>	<u>Name of participant</u>	
European Commission	Mr Johan Khouw	Chairperson
European Central Bank	Ms Doris Schneeberger	Chairperson
European Commission	Mr Ruediger Voss	
European Commission	Ms Irina Stoicescu	Secretary
European Commission	Ms Doxoula Koutsotoliou	
Association of German Banks	Mr Jörg Schmiese	
Italian Banking Association	Mr Enrico Eberspacher	
Bureau Européen des Unions de Consommateurs	Mr Jean Allix	
Caixa Geral de Depósitos	Ms Leonor Machado	
EAST	Mr Job Galesloot	
ESTA	Mr Thierry Lebeaux	
EURICPA	Mr Pierre-Jean Verrando	
EURICPA	Mr David Milner	
EUROMAT	Mr Christian Trenner	
European Association of Co-operative Banks	Mr Pablo Lahoz Marco	
European Savings and Retail Banking Group	Mr Diederik Bruggink	
European Vending Association	Mr Ingmar Gründel	
European Vending Association	Mr Erwin Wetzel	
European Vending Association	Mr Simon Scott Brown	
Febelfin	Mr Raf Rollier	
French Banking Federation	Mr François Coulet	
Hellenic Bank Association	Ms Anna Garyfalli	
European Central Bank	Mr Henk Esselink	
European Central Bank	Mr Olivier Strube	Secretary