

*General Cashier's Department
Circular 279, updated at July 2016*

GUIDE TO CONTROLS ON CASH HANDLERS

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PREMISE

This Guide sets out the procedures for controls on cash handlers, i.e. persons that check the authenticity and fitness of euro banknotes in order to detect possible counterfeits and notes that are no more fit for circulation.

The Bank of Italy, by order of Governor of 22 June 2016, issued Provisions on Cash Handling Activities, in which the sources of law, definitions and rules governing this activity are specified.

The administrative procedures indicated in the Guide are subject to the provisions of Law 241/1990 as amended and of the Bank of Italy Regulation of 22 June 2010, which specifies the time limits and the organizational units responsible for the administrative procedures within the powers of the Bank of Italy, pursuant to Articles 2 and 4 of Law 241/1990 (hereinafter the 'Regulation') –

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CHAPTER I CHAPTER I
STARTING RECIRCULATION

1. Checking requirements for starting recirculation

Parties intending to perform cash handling activities shall send prior notification to the Bank of Italy by sending Annex 4 of the 'Provisions on Cash Handling Activities', attached to the Order of 22 June 2016, hereinafter called the 'Form'. Reporting entities, namely the cash handlers identified by the abovementioned Order, are required to send the Form. The Form shall be sent by the cash handler, also to notify changes of previously provided information, except for those related to the machines used.

Cash handlers shall notify the General Cashier Directorate by certified email when they cease the cash handling activities, with no need to use any specific forms.

The General Cashier Directorate is responsible for the cash handler archive and collects and acquires the information, to this purpose, from the abovementioned Forms.

To report the data, the cash handler shall communicate, via certified email, the names of the persons that will be authorized to enter data into the CASH-IT cash Portal.¹

¹ This notification shall include: name and surname, fiscal code, telephone and email, together with the relevant digital certificates.

CHAPTER II
AUTHORIZATION FOR MANUAL BANKNOTE
AUTHENTICITY AND FITNESS CHECKING

1. Premise

This Chapter sets out the procedure for granting authorization to perform manual checks of banknotes that are used to feed automatic teller machines by trained staff. Authorizations, based on the applications made by banks and by Poste Italiane SpA, are issued with reference to the following manual checks on:

1. the fitness of banknotes at ‘remote branches’ (Article 7.1 of Decision ECB/2010/14 and subsequent amendments and Chapter I of the Provisions on cash handling activities);
2. authenticity and fitness of banknotes, in exceptional and temporary circumstances that significantly impair the supply of banknotes to the public (Article 7.2 of Decision ECB/2010/14 and subsequent amendments and Chapter I of the Provisions on cash handling activities).

The Head of the General Cashier Directorate is responsible for the procedure.

2. Start of the procedure

When the application is received, the Bank verifies its correctness and completeness. Where the application is correct and complete, the Bank notifies the start of the administrative procedure to the applicant, the persons who by law must intervene, and third parties with an opposing interest. The measure must be issued within ninety days, taking account of any period of suspension following requests for additional information.

The notification of the start of the procedure must be sent as soon as possible and in any case no later than a third of the period envisaged for concluding the procedure; it includes: i) the date on which the application was received; ii) the organizational unit responsible for the procedure; iii) the person responsible for the procedure and the time period for its conclusion; iv) the possibility for the applicant to examine the documents of the procedure; v) the deadline (equal to half the time limit set for the adoption of the measure) for the presentation at the parties’ initiative of briefs and documents; and vi) possible remedies in case of failure to issue the measure.²

If the application is incorrect or incomplete, the applicant must be so informed within a time limit equal to half of that set for the duration of the procedure, with indication of the points of incorrectness or incompleteness and a specification that the time limit for the conclusion begins from the date of reception of the amended application.

In the course of the procedure, an applicant’s presentation of new documents or information such as to modify essential elements of the application (Article 2(4) of the Regulation) is equivalent to a new application and entails that the time limit for concluding the procedure begins from the date of reception of such documents or information.

² Under Article 31 of the Code of Administrative Procedure introduced by Legislative Decree 104/2010, ‘once the time limit for the conclusion of the procedure has elapsed, interested parties may request ascertainment of the administration’s obligation to act’.

3 The investigation phase

3.1 Calculation of time limits

For the purposes of calculating the ninety-day time limit for the adoption of the measure:

- a) the time limit begins from the day of reception of the complete or corrected application (Article 2(3) of the Regulation);
- b) the day on which the final time limit for the procedure elapses; accordingly, the day coinciding with the final time limit can serve for the adoption of the measure or the notification of the rejection of the application.

3.2 Request for additional information

If in the course of the investigation it becomes necessary to obtain additional information or certifications, a formal request to this effect must be made to the applicant. The letter of request must specify that the request suspends the time limit set for the procedure, which will begin to elapse again from the date of reception of the additional information requested. There can only be one suspension during a procedure, and it cannot last for more than one hundred and eighty days (Article 10(6) of the Regulation), from the date of the request for additional information.

When it is necessary to supplement the investigation by inspection, the time limit for the procedure may be suspended under Article 10(5) of the Regulation. The time limit begins to elapse again on the date the Governor endorses the inspection report. The suspension cannot be longer than one hundred and eighty days (Article 10(6) of the Regulation).

3.3 Criteria for evaluating the application

The assessment of the requests involves, with reference to distance, an investigation of the technical requirements published on the Bank of Italy's website.

In particular, the investigation aims to assess:

1. in the case of applications for authorization for remote branches that:
 - owing to its location and the characteristics of the transport infrastructures that serve it, the branch is not easily reachable for a constant and continuous supply of banknotes;
 - the volume of transactions with the public at the branch is modest;
 - the volume of euro banknotes dispensed by automatic teller machines at all the remote branches authorized by the Bank of Italy to perform manual fitness checks does not exceed 5 per cent of the total dispensed nationwide via ATMs;
 - the branch is equipped with compliant machines for authenticity checks;
2. in the case of authorization applications in connection with 'exceptional and temporary circumstances':
 - the extraordinary nature of the event;
 - the possible harm to the circulation of banknotes, taking account, among other things, of the size and importance of the areas of national territory that would be cut off from the supply of cash.

Even in the absence of the abovementioned requirements, applicants can still ask the Bank of Italy to take account of particular situations regarding weather conditions likely to have a significant effect on the regularity of connections, and shall provide suitable evidence of the existence and persistence of such conditions.

4 Conclusion of the procedure

4.1 Acceptance of the application

When the outcome of the investigation is positive, the procedure concludes with the issue of the authorization measure, stating that the conditions for authorization laid down in the regulations are satisfied.

The authorization measure is sent for adoption to the Governing Board accompanied by a note on the investigation which:

- a) summarizes the time limits for the application and the relevant legislation;
- b) describes the findings of the investigation to ascertain whether the conditions required by the said legislation have been satisfied;
- c) sets out the proposal for acceptance.

The authorization measure is issued by the Governing Board in compliance with the provisions of the Statute of the Bank of Italy.

The authorization contains, inter alia: i) any information obligations required following the adoption of the measure; ii) mention of the revocability of the authorization, should the conditions under which it was granted change; and iii) the expiry date of the authorization in the case of an authorization measure in connection with 'exceptional and temporary circumstances'.

The measure is notified to the applicant by the same means used for the initial notification of the start of the procedure.

4.2 Revocability of the authorization measure

In the event of a change in the conditions under which the authorization was granted, the measure may be revoked.

Revocation means that the authorization measure no longer has effect.

The revocation decision must be notified promptly to the applicant.

4.3 Notification of impediments

If in the course of the investigation it is found that the requisites for issuing an authorization are lacking, the person responsible for the procedure notifies the applicant of the reasons for the impediments to application.

The decision is made by the Governing Board pursuant to the provisions of the Statute of the Bank of Italy.

Although the law does not set a deadline, it establishes that the administrative authority must communicate the impediments promptly. Accordingly, the findings of the investigations should be submitted to the higher levels of the hierarchy well in advance of the time limit for the procedure.

The notification, accompanied by a note on the investigation, must be drafted very carefully and specify the de facto elements and regulatory provisions on which the evaluations that impede acceptance of the application are based.

The notification must be transmitted promptly.

The notification of the impediments to the applicant suspends the time limit for concluding the administrative procedure.

Within ten days of receiving the notification the applicant may submit observations in writing, possibly accompanied by documents. The time limit for concluding the procedure resumes, elapsing from

the date of presentation of the applicant's observations or, in their absence, the date on which the time limit for their submission lapses.

The decision is made by the Governing Board pursuant to the provisions of the Statute of the Bank of Italy.

4.4 Rejection of the application

Where the investigation as a whole brings out elements which – even after taking into consideration any observations transmitted following the notification of the impediments – make it advisable not to accept the application, a rejection measure will be adopted.

The rejection measure must be properly motivated, taking account among other things of the notification of the impediments and specifying the legislative provisions and facts on which the rejection is based.

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The rejection measure is approved by the Governing Board pursuant to the provisions of the Statute of the Bank of Italy.

Where no observations have been submitted following the notification of the impediments, the rejection measure is signed, with the authorization of the Governing Board, according to the criteria published on the Bank of Italy website.

The decision shall be notified to the applicant within the time limit for concluding the procedure and by the same means as the initial notification.

5 *Ex officio* authorization in exceptional circumstances

Where there are exceptional circumstances and it is necessary to issue an authorization, the General Cashier Directorate prepares an investigation report for the person responsible for the procedure, which is the Bank of Italy's first initiative and with which the procedure may be initiated, to be notified to the interested parties.

Notification that the *ex officio* procedure has been initiated is:³

- published on the Bank of Italy website where the number of recipients would make personal communication particularly burdensome; or
- notified by the same means as the application procedures where there is a limited number of recipients.

In cases of urgency the General Cashier Directorate proposes the immediate adoption of the measure, without notification of the procedure's initiation, and submits the relative draft to the Governing Board, together with an investigation report which records the grounds of urgency. The measure must also include the reasons for the urgency.

Finally, in the abovementioned cases of urgency and in any case whenever it is not possible to attend the Governing Board's collegiate meeting, the act must be submitted to the Governor or to one of the other members for approval, according to the criteria for replacement in compliance with the provisions of the Statute of the Bank of Italy. Such measures shall be submitted to the Governing Board for ratification at the first possible meeting.

³ The provisions of the Regulation of the Bank of Italy dated 22 June 2010, to which reference is made, also apply to these official procedures.

CHAPTER III INSPECTIONS

1. Premise

Within its monitoring activity on cash handlers the Bank of Italy may order inspections.

The inspections are directed at analysis and assessment of the organizational and operational arrangements with which cash handlers process banknotes, in order to request, where necessary, prompt corrective action or to adopt a measure to prohibit the recirculation of banknotes. The following are particularly important:

- verification of the procedures and controls for checking the authenticity and fitness of banknotes;
- controls on the machines for authenticating and sorting banknotes, with specific reference to their ability to check authenticity and fitness and to trace suspected counterfeits to the person who deposited them;
- verification of the reliability of the data and information communicated to the Bank of Italy.

In order to limit the burden on cash handlers, inspections will be carried out according to the principle of proportionality, i.e. the graduation of controls as a function of the characteristics, size and complexity of the institutions inspected. Accordingly:

- as a rule, inspections are carried out on cash handlers that recirculate banknotes by means of automatic machines that check authenticity and fitness;
- the inspector will adapt the course of the inspection to the operational complexity and the problems of the cash handler, adjusting the depth of the analysis as necessary.

Inspections at banks, electronic money institutions, payment institutions and Poste Italiane SpA units that engage in cash handling are carried out in close coordination with the Bank's Supervision Inspectorate ([see Section 12 'Inspections carried out on banks'](#)).

For controls on cash handlers subject to inspection by the Finance Police pursuant to Article 53(2) of Legislative Decree 231/2007, the Bank of Italy can avail itself of the cooperation of the Finance Police, as envisaged by Article 8(7) of Decree Law 350/2001, as replaced by Article 97(1) of Decree Law 1/2012.

2. Types of inspection

Inspections may involve the cash handler's entire recirculation operation ('broad spectrum' inspections) or individual areas of activity ('targeted' inspections); targeted inspections include verifications of the stocks of euro banknotes in the vaults of service companies and verifications of the automatic devices used for recirculation in bank branches.

Following investigations already carried out, follow-up inspections can be arranged to verify the implementation of initiatives introduced by cash handlers or requested by the Bank of Italy. Where anomalies and problems emerge in areas other than where targeted or follow-up inspections have been made, inspections shall be extended to these areas as well.

3. Planning of inspections

The frequency and type of inspections are established using a risk-based approach, where risk is assessed by specific indicators.

As a rule, inspections are arranged on a yearly schedule; inspections not provided for in the schedule are carried out when especially problematic situations occur that require them.

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4. Letter of appointment

Inspections are carried out by Bank of Italy employees. In carrying out the institutional functions assigned to the Bank of Italy by the law regarding checks on cash handlers, inspectors hold the position of public official pursuant to Article 357 of the Italian Penal Code.

Inspections are ordered by means of a letter of appointment, pursuant to the Statute of the Bank of Italy.

5. The inspection team

Inspections are entrusted to at least two employees (the ‘inspection team’); the letter of appointment nominates one of them as the inspection team leader.

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6. Start of the inspection

As a rule, inspections are conducted at the units where banknotes are handled. The Bank of Italy branch shall take the necessary steps for the procedures of access to cash handlers.

The inspection team leader nominated will initiate the inspection by:

- giving the letter of appointment to a representative of the company;
- notifying the General Cashier Directorate that the inspection has started.

7. Criteria for conducting the inspections

In order for inspections to reach their full information potential, inspectors work in such a way as to constantly refer to the criteria of:

- flexibility, defined as the scope of technical discretion within which inspectors make the choices that best serve the purposes of the investigation (e.g. documents to consult and persons to contact);
- objectivity, to guarantee the validity of any criticisms made and uniformity of behaviour. In the practical application of the principle of objectivity, facts should be distinguished from evaluations. Facts should be weighed in the light of the legislative framework, the operations of the cash handler and the context found by the inspection. In evaluations, which are intrinsically subjective, the need is to minimize the risk of inconsistency in judgments, which is typically greater in the assessment of qualitative phenomena. For this purpose there are standard courses of analysis and indications of the evaluation elements underlying each level of judgment; where there are cases that deviate from the standards, the inspector should take care to adapt the analytical criteria to the individual case;
- transparency vis-à-vis the cash handler and dialogue with its corporate representatives. This permits a critical verification of the hypotheses made during the inspection and the addition of new information elements not yet considered. Moreover, the dialogue, to be conducted in observance of the participants’ different roles and without disclosing any provisional assessments, will give cash handlers a better understanding of the criticisms and observations made and thereby favour the

immediate preparation of corrective measures;

- focus of the inspection on operational areas characterized by greater risk or by problems already identified during offsite monitoring. This criterion, typical of targeted inspections, may also be applied to broad spectrum inspections;
- containment of cash handlers' burden. The inspections should impose no unnecessary burden on the cash handler. Specifically, in selecting inspection methods (request for documentation, meetings and so on), given a choice of equally effective tools, inspectors should select those that impose lower burden on cash handlers;
- confidentiality and prudence are rules of conduct implicit in the delicate nature of the inspection function.

8. Methodology and courses of analysis

The inspection may be adapted to the legal form and the production volumes of the various subjects inspected. Inspectors must implement the principle of proportionality of checks by suitably adapting the investigations and the depth of analyses to individual companies. In particular, given the different types of inspection, inspectors shall identify the content of the various approaches, which is adapted to the subject under inspection and to the scope of the investigation, and the methods for carrying out inspections.

In the case of cash handlers authorized to transport and store valuables, the inspections do not cover evaluations of the vehicles, methods and procedures for funds transporting.

Inspections involve overall structures, management systems and the technical and human resources used in handling banknotes, and combine an examination of the rules governing business processes with a verification of their concrete operational application. Analyses are divided as follows:

- a) storage of banknotes;
- b) organizational structure;
 - production processes;
 - control system;
 - system for recording data on banknote handling;
- c) functionality of machinery for authenticity checking and sorting of banknotes;
- d) human resources;
- e) statistical reports sent to the Bank of Italy.

8.1. Storage of banknotes

Inspectors shall verify that organizational measures suitable for ensuring the security of banknotes have been adopted.

To this end, inspectors shall also ascertain the actual quantity of the euro banknotes in storage.

Checking the banknotes held in the vault makes it possible to determine first of all any shortfalls or differences in the stocks of money and at the same time to observe the compliance with the organizational requirements of the company being inspected, which will be considered more thoroughly in later stages.

During the verification of the banknotes held, inspectors can observe and evaluate the correctness of the:

- traceability to the person making the deposit;
- carrying out of reconciliation checks;

- separation of banknotes fit for circulation from unfit ones;
- handling of banknotes suspected of being counterfeit and damaged banknotes.

8.2. Organizational structure

8.2.1. Production processes

Inspectors check that the cash handler has mapped the relevant production processes and defined the procedures that govern their individual functioning. They also examine the internal provisions and evaluate their compliance with the regulatory framework by verifying how they are complied with in concrete operations, how complete they are and how well known they are among the staff.

If operational practices inconsistent with the internal regulations are discovered, the inspectors must determine whether these discrepancies are due to an inadequate disciplinary framework (which must be revised accordingly) or involve factors that put the proper management of cash handling at risk.

8.2.2. Control system

Inspectors make sure that the internal controls are established and formalized so as to ensure, based on the organizational and procedural decisions taken, an effective cover for all the phases of cash handling to protect against the risk of putting counterfeit or unfit banknotes back into circulation.

To this end the division of roles and responsibilities on the organization chart is assessed together with the system of authorizations for access to the IT procedure.

The next step is to examine the performance level of the control system by analysing the capacity and speed with which shortcomings or inadequacies are detected and the necessary corrective measures are prepared and implemented.

The control system adopted must be proportional to the degree of complexity of the activities carried out.

8.2.3. System for recording data on banknote handling

Inspectors assess the ability of the system to detect the data on handled banknotes, to trace banknotes suspected of being counterfeit and damaged banknotes separately and to produce reports for control purposes.

8.3. Functionality of machinery for authenticity checking and sorting of banknotes

The inspectors shall verify the compliance of the machines in use. Machines are compliant when the type of machine – identified by a combination of the trade name and the software version - is published on the European Central Bank website.

The machines are tested to see if they can detect counterfeit banknotes and sort banknotes fit for circulation from unfit ones.

After checking the machines, the inspectors then examine the supply and maintenance contracts to ensure they comply with the legislative provisions.

8.4. Human resources

The staff members that handle cash must have adequate knowledge for detecting banknotes suspected of being counterfeit or that are unfit for circulation and to carry out their work in compliance with internal procedures and standards.

To verify staff training levels, inspectors evaluate the training programmes followed and participation in courses (internal and external, including at the Bank of Italy), and the knowledge of the workers.

8.5. Statistical reports sent to the Bank of Italy

The inspection assesses the consistency of the machines used with the reports of the master data as

well as of the volumes of banknotes handled with the statistical reports of operational data; they also check the correctness of the calculation algorithm for the data reported.

9. Termination of the inspection and final interview

The inspection team leader shall notify the General Cashier Directorate that the inspection has terminated.

By the end of the inspection the inspection team leader will have prepared a draft report containing the inspection's findings.

On the basis of the draft report the inspection team leader has the final interview with the inspected party and presents the findings from the inspection, so as to allow for discussion and to ensure respect for the principle of transparency.

The final discussion with the company's representatives will help provide a clearer and more concrete presentation of any problems in the inspection report.

10. The inspection report

10.1. Structure and content

The inspection report is divided into the following parts: 1) Details 2) Scope of the inspection, evaluations and brief considerations 3) Findings 4) Observations 5) Supplementary notes and 6) Annexes.

1. The 'Details' section includes the main data concerning access for inspection (company/bank, headquarters, inspection team and period).
2. The 'Inspection, evaluations and brief considerations' section includes:
 - a) 'type/area of inspection' (broad spectrum, targeted or follow-up);
 - b) 'overall judgment' to communicate the overall result of the inspection;
 - c) 'brief considerations' include the overall evaluation of the ability to carry out recirculation activities in compliance with the regulatory framework; the most relevant problems noted in the findings, the risks involved and other significant information are indicated.
3. The 'Findings' section reports the problems detected.

The 'Findings' refer to non-compliance with the rules or to dysfunctions or deficiencies affecting the efficiency and security of cash handling activities and therefore require prompt action or corrective measures. The following are summarized:

- a) an illustration of the fact detected, the rule infringed and any deviation from internal regulations; examples of non-compliance are carefully noted which may also, in relation to their impact, merit sanction measures;
 - b) a presentation of the causes leading to the anomaly;
 - c) a description of the effects in terms of risks that have already occurred and potential risks, which stem from the abovementioned critical issues;
 - d) an indication of any corrective action and measures implemented by the inspected entity to remove the problems found during the inspection or to reduce potential risks.
4. The 'Observations' section reports on subjects likely to experience negative developments or that need to improve to prevent lapses in the efficiency of cash handling processes.
 5. The 'Supplementary notes' summarize the following:
 - a) a contextual framework of the elements detected, together with the inspected entity's strong

and weak points, with reference to the specific area under investigation;

- b) an assessment of the requirements for managing recirculation (machinery, human resources and organizational structure) expressed in terms of effectiveness and compliance with the rules.

6. The ‘Annexes’ include documents attached to the inspection report, including the report on the verification of banknotes stocks and any other documents that provide adequate information to support the inspection report.

10.2 Overall assessment

The formulation of the overall assessment is based on the ability of the cash handler to protect against the risk of putting counterfeit or unfit banknotes back into circulation.

The rating is divided into four brief categories that follow an increasing scale of riskiness in terms of the possible recirculation of counterfeit or unfit banknotes.

1. FAVOURABLE

The organizational and control framework, machines and employees of the inspected entity provide effective protection against the risk of recirculating counterfeit or unfit banknotes. Any shortcomings found expose the cash handler to a **low level of risk**. No significant intervention is required, although some improvements can be made.

2. PARTIALLY FAVOURABLE

The organizational and control framework, machines and employees of the inspected entity provide sufficient protection against the risk of recirculating counterfeit or unfit banknotes. Any shortcomings found expose the cash handler to a **low to medium level of risk**. Some intervention is required.

3. PARTIALLY UNFAVOURABLE

The organizational and control framework, machines and employees of the inspected entity provide insufficient protection against the risk of recirculating counterfeit or unfit banknotes. Any shortcomings found expose the cash handler to a **medium to high level of risk**. The problems found require significant and prompt corrective measures.

4. UNFAVOURABLE

The organizational and control framework, machines and employees of the inspected entity do not provide protection against the risk of recirculating counterfeit or unfit banknotes. The serious problems found expose the cash handler to a **high level of risk**. The lack of organization jeopardizes the whole process for the recirculation of banknotes; exceptional and urgent measures are required.

The formulation of overall assessments also takes account of anomalies persisting from previous inspections, e.g. in the case of follow-up inspections.

10.3. Criteria for drafting

The inspection report must provide information and be readily usable both by the inspected cash handler (which must implement measures to remedy the shortcomings set out in the ‘Findings’ and ‘Observations’ sections) and by the General Cashier Directorate (which must evaluate any corrective measures and, in any case, examine the inspected entity’s plan of action). To this end, the person compiling the report should respect the following criteria:

- clarity and a logical flow, using plain and clear language, to incorporate the findings and observations in homogeneous reporting sections;
- importance and pertinence, including only those elements that complete the information and that are necessary for the objectives of the inspection;
- sufficient information, indicating all the elements necessary for a clear understanding of what is reported; in particular, the findings and observations need to be detailed and, where appropriate,

corroborated by reference to documentary evidence that is uniquely identifiable; this is particularly important where the facts described are likely to be reviewed for sanctioning purposes;

- comprehensiveness, since the inspection references must provide a fully integrated and coherent summary.

10.4. Confidentiality

The inspection report is a document that is produced progressively. Although the working drafts cannot be classified according to the report's formal level of confidentiality, they may contain significant information and provisional assessments that must nevertheless be kept confidential. The members of the inspection team must be especially careful in the phase of drafting and in keeping safe custody of these drafts, using adequate IT safeguards. Similar precautions must be adopted for documentation acquired from the cash handler during the course of the inspection.

11. Post-inspection obligations

11.1. Revision of the report

At the beginning of the inspection the General Cashier Directorate appoints team members to revise the report.

The revision of the draft – carried out with the inspection leader – serves to provide a critique of the clarity and technical relevance of the findings and observations made, the completeness and coherence of the assessments and information and the text's conformity with quality standards for drafting, taking account of the need to ensure uniformity and coherence in the reports.

11.2. Subsequent phases

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11.3. Delivery of the report

As a rule, the inspection report is delivered to the cash handler by letter. Where necessary, the report may also be delivered at a special meeting held at the cash handling company or at the Bank of Italy (General Cashier Directorate or branches). In the latter case it is consigned by the inspection team leader (or where this is impossible, by another specifically designated employee) in the presence of the cash handling company's *pro tempore* legal representative. The Head of the General Cashier Directorate, a delegate or someone from a branch is also present. The inspection team leader reads the report and provides, where requested, clarifications on the facts which are the subject of disputes.

The inspection report may also be delivered by the manager of a branch which receives specific instructions from the General Cashier Directorate on the delivery of reports⁴. One copy of the report is delivered to the cash handler and the other is kept by the General Cashier Directorate.

Where it has been decided to request the adoption of urgent measures to resolve the shortcomings found and/or an administrative sanction procedure has been initiated, the next steps are the delivery of the post-inspection letter and the notification of the letter of charges ([see Ch. VI](#)).

12. Inspections carried out on banks

Inspections of banks are carried out in close cooperation with the Banking Supervision.

As a rule, inspections take place at the same time as supervisory inspections to minimize the burden imposed on the cash handler, although the two inspections are carried out in different ways.

Since some areas to be inspected are common to both inspections (e.g. the internal control system and the organization), cooperation and coordination must be ensured to permit an evaluation of the cash handler's ability to manage risks.

13. Inspections to check the machines for banknote recirculation

Inspections of this type are intended to verify the compliance of the machines used for the recirculation of banknotes installed in cash centers, banks and other locations where recirculation takes place (e.g. retailers equipped with recirculation machines).

For this purpose, the inspection will focus on testing the functionality and compliance of the machines' software and their ability to detect counterfeit banknotes and sort banknotes fit for circulation from unfit ones. The supply and maintenance contracts of the machines are also examined.

⁴In order to identify the pro tempore legal representative, a search in the public archives is carried out at a time close to the delivery.

CHAPTER IV

REMOTE MONITORING OF CASH HANDLERS

1. Collection and processing of information on cash handlers

The offsite monitoring of cash handlers has a twofold objective:

- 1) the prompt identification of a deterioration in the activities carried out or an increase in the risk of counterfeit or unfit banknotes being recirculated (with a view to a possible updating of the annual inspection plan);
- 2) to follow developments in recirculation activities in a more general sense.

The General Cashier Directorate makes use of data and information reported by cash handlers, or from internal sources such as Bank of Italy branches or other Bank of Italy directorates, together with other information acquired from public sources (the press, public archives) and from other parties involved in the cash cycle and other national central banks.

The half-yearly data sent by cash handlers on the recirculation of cash are acquired through the CASH-IT cash portal application. The IT application checks the formal completeness and correctness of the reports sent.

The General Cashier Directorate, in its capacity as system owner and user manager of the application, provides support to users, verifies that all the reporting agents have sent their data and, where necessary, sends reminders. Further checks on the correctness and consistency of the data are carried out together with a deviation analysis.

Where monitoring reveals the need to intervene with cash handlers for whom anomalies have been reported, the appropriate corrective action provided in Chapter V needs to be implemented, also with reference to the interventions arising from exceeding the limit laid down by Article 7 of Decision ECB/2010/14 and subsequent amendments.

- omissis -

2. Checks on the limit for recirculation for remote branches authorized to perform manual checks

Compliance with the limit of 5% pursuant to Article 7 of Decision ECB/2010/14 and subsequent amendments is verified every six months.

3. Use of information for aggregate data processing

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In April and October, with reference to the half semester of the previous year and to the first half of the current year respectively, the relevant Division prepares – based on the periodic reports from cash handlers – the aggregate data (Guideline ECB/2008/8, Annex IIIa) on the recirculation of banknotes to be sent to the Currency Information System 2 - CIS2 of the European Central Bank.

4. Internal and external reports on the checks on cash handlers

The General Cashier Directorate regularly prepares internal and external reports on the checks carried out on cash handlers.

The reports and the information focus on objective factors and on problems occurring over time; they can help to draw up a set of 'good rules' and 'best practices' to be applied to cash handlers.

CHAPTER V

CORRECTIVE MEASURES

1. Premise

In cases of non-compliance with the provisions governing the activity of cash handlers, the Bank of Italy is empowered to require cash handlers to adopt corrective measures.

The evidence of non-compliance may come from inspections and from other information acquired through offsite monitoring.

The type of measure adopted is linked to the seriousness of the problems found and the need for prompt action and will be commensurate with the risk of recirculation of banknotes lacking the requisites of authenticity and fitness.

Where this risk is high, the request for corrective measures may be accompanied by a measure prohibiting the recirculation of banknotes, which is adopted under the provisions governing administrative procedures.

In the event of a malfunctioning of banknote handling machines, the prohibition, which may apply to one or more machines, is part of the procedure established by the ECB for eliminating the malfunction and for the possible deletion of the machine from the list of those compliant with ECB standards.⁵

2. Request for corrective measures

Requests for corrective measures take the form of a notification from the General Cashier Directorate to the cash handler, containing a warning or a request for the removing irregularities.

The manner in which the notification is drawn up is important in making the intervention effective; the problematic aspects are described in the preamble to the operative part, which must indicate the steps to be taken to prevent problems from arising, remove anomalies and stop things from becoming worse.

Similar drafting procedures are also to be followed, for the intervention to be effective, when it is decided to send the cash handler a simple letter containing suggestions or recommendations or both.

If the need for a corrective intervention stems from the findings of an inspection, a post-inspection letter is usually drawn up following an assessment of the responses to inspectors' observations, so as to determine the cash handler's awareness of the problems and ability to frame valid countermeasures. The letter is based on information from the inspection report, possibly supplemented by any more recent information that may be available.

When the inspection results are such that appropriate measures must be adopted immediately to remedy the shortcomings found, the post-inspection letter, normally delivered at the same time as the inspection report, may include, according to the nature and extent of the shortcomings, a request for the drafting of a plan of action to be submitted to the Bank of Italy with an indication of the concrete initiatives planned by the cash handler and their timeframe.

⁵ The ECB Guideline ECB/2010/NP16 '*Guideline of the European Central Bank of 16 September 2010 on rules and procedures for the testing of banknote handling machines, data collection and monitoring*'.

The letter which, if necessary, also establishes the timescale for when the plan is to be presented and its contents are to be completed, is signed by the Governing Board according to the criteria published on the Bank of Italy's website.

If the request for corrective measures involves particularly problematic or delicate situations, the General Cashier Directorate submits the adoption of such measures to the Governing Board.

- *omissis* -

Where the situation found by the inspection entails a high risk of recirculation of counterfeit or unfit banknotes, it may be necessary to initiate a procedure to issue a measure prohibiting recirculation.

The General Cashier Directorate can send recommendations of a general nature to all cash handlers and submit them to the Governing Board for approval.

3. Prohibition of banknote circulation

The prohibition of banknote circulation will be considered:

- on an ordinary basis if
 - a) there is a high level of disorganization such that there is a high risk of counterfeit or unfit banknotes being put back into circulation;
 - b) there are serious violations of the obligations laid down by legislation on cash handling;

This does not prejudice the right to adopt the abovementioned prohibition measure on a precautionary basis if the Bank of Italy deems it necessary, without initiating the communication procedure.

- as a matter of urgency when the monitoring tests conducted during an inspection of the banknote handling machines used by the cash handler have a negative outcome. In such cases, the prohibition may apply to all or only some banknote denominations; if the cash handler has several machines, the prohibition may apply only to those for which the monitoring test results were negative.

The person responsible for the procedure is the Head of the General Cashier Directorate. The measure is to be adopted by the Governing Board in accordance with the provisions of the Statute of the Bank of Italy.

- *omissis* -

As regards the adoption of the final measure, the General Cashier Directorate evaluates any pleadings and documents sent by the cash handler concerned within the deadline stipulated in the notice of initiation and any other information available, including reference to any letters of intervention.

- *omissis* -

The measure to prohibit the recirculation of banknotes or the notification that the measure has not been adopted are notified to the party concerned by a court officer⁶, following a specific request to be submitted to the relevant local Court of Appeal, or through a Bank of Italy official.⁷

⁶ Two certified copies of the measure or of the notification must be delivered, one of which must be returned with the date and the signature of the cash handler's pro tempore legal representative, who must also sign and date the acknowledgment of receipt.

The prohibition measure is published on the Bank of Italy website.

- omissis -

The revocation of the ordinary prohibition measure (including precautionary ones) is carried out by means of a specific measure adopted by the Governing Board. This measure is sent as quickly as possible, by the same means used for notifying the prohibition measure, and is published on the Bank of Italy website.

A prohibition measure as a matter of urgency during inspection. When a measure for prohibiting the recirculation of banknotes is linked to the malfunctioning of banknote handling machines, it must be adopted in the context of the procedure established by the ECB as regards the precise details.⁸

- omissis -

The urgent measure will be signed by the Governing Board following the criteria published on the Bank of Italy website, provided that it is adopted during inspection and where there is a malfunctioning of banknote handling machines.

There is no need to communicate the start of the procedure when a prohibition measure is adopted as a matter of urgency.

The urgent prohibition measure is notified to the party concerned by a court officer or a Bank of Italy official.⁹

4. Subsequent checks

The General Cashier Directorate will verify that the cash handler to which corrective measures have been addressed carries out the initiatives to remove the failures and shortcomings detected during controls. To this end, the Directorate may also order specific follow-up inspections.

⁷ The provisions of Article 14(4) of Law 689/1981 are applicable: ‘As regards the form of an immediate objection or of a notification, the provisions provided for by the laws in force are applicable. In any case the notification may also be carried out, as provided for by the Code of Civil Procedures, by an official of the administration that detected the infringement. When the notification cannot be made personally to the recipient, it will be carried out according to Article 137(3) of the Code of Civil Procedures’.

⁸ The ECB Guideline ECB/2010/NP16 “Guideline of the European Central Bank of 16 September 2010 on rules and procedures for the testing of banknote handling machines, data collection and monitoring”.

⁹ The notification of an urgent measure takes place by the same means used for notification of an ordinary measure.

CHAPTER VI

SANCTION PROCEDURE

To apply the pecuniary administrative sanctions provided for in Chapter VI of the 'Provisions on Cash Handling Activities', the procedure indicated below will be followed.

The Head of the General Cashier Directorate is responsible for the procedure.

1. Start of the sanction procedure

To initiate the sanction procedure, the irregularities or instances of non-compliance with the provisions governing the sector found in the activities of cash handlers (during inspections or other controls) are submitted for assessment to the Advisory Group on Cash Handler Activities. The group is convened by the Chairman.

The following are members of the Group:

- the Head of the General Cashier Directorate or another designated staff member, who acts as Chairman;
- a representative of the Coordination and External Relations Directorate of the Directorate General for Financial Supervision and Regulation;
- a lawyer from the Legal Services Directorate, for legal assistance

The Group is supplemented by:

- a) the inspection team leader and one or both of the report revisers, for the investigation of the irregularities or instances of non-compliance found during the inspection;
- b) where deemed appropriate, by representatives of the Directorates of the General Directorate for Financial Supervision and Regulation or by the branch manager, according to their supervisory tasks, if the irregularity concerns supervised entities.

As a rule, branch representatives participate in meetings by video or teleconference.

Secretarial functions are the responsibility of the General Cashier Directorate.

On completion of the investigation, the Group may propose:

- a) an additional investigation;
- b) the start of the administrative sanction procedure;
- c) not to order the start of the administrative sanction procedure. Where the circumstances warrant it, the Group may propose that the cash handler nevertheless be issued a cash warning.

Once the Group's conclusions have been recorded in the minutes, they are submitted to the Head of the General Cashier Directorate for approval.

The General Cashier Directorate identifies those irregularities which, because of their nature or their relatively low degree of technical and legal complexity, do not have to undergo collegial examination by the Group to initiate the sanction procedure.

In such cases the Head of the General Cashier Directorate, on the basis of an overall assessment of the available data and information, may:

- a) order the start of the sanction procedure;
- b) take no further initiatives. Where the circumstances warrant it, order that the cash handler nevertheless be issued a warning.

The General Cashier Directorate submits the notification of charges of irregularities for the start of the sanction procedure for the approval of the Director General of the Currency Circulation Directorate or of a substitute.

The notification of charges¹⁰ is to be sent to cash handlers within ninety days of the end of the inspection or of the signature of the Director General on the accompanying note (for irregularities not detected during inspections) to which the Group's minutes are attached. For cash handlers that have their registered office abroad, the deadline is three hundred and sixty days. Notifications are to be communicated in the same way as prohibition measures; in the case of irregularities found during an inspection, notifications take place when the inspection report is delivered.

If the notification is made by a Bank of Italy official, firstly the legal status of the company needs to be verified and the legal representative must be identified by verifying the chamber of commerce certificate (public archive).

Within thirty days of the notification, the cash handler against whom the charges have been made may submit its counter arguments and requests for a hearing or for an extension of the time limit which as a rule may not exceed fifteen days. The date for a hearing is agreed at short notice and promptly confirmed by letter, as is the granting of an extension of the time limit. Failure to present counter arguments shall not prejudice the continuation of the sanction proceedings.

The possibility of adopting a measure prohibiting banknote recirculation together with the start of a sanction procedure against a cash handler will be unaffected.

Integration of the formal charges. Following any further irregularities found during a follow-up inspection or during other controls, the Advisory Group may decide to supplement the letter of formal charges previously notified to the cash handler. Where it is decided to supplement the procedure, the Head of the General Cashier Directorate submits the letter supplementary to the formal charges to the Head of the Directorate General, together with an accompanying note to which the group's minutes are attached.

The notification must be sent to the cash handler within ninety days of the termination of the follow-up inspection or of the signature of the Head of the Directorate General on the accompanying note (for irregularities not detected during inspections). For cash handlers that have their registered office abroad, the deadline is three hundred and sixty days (the means of notification are the same as those for prohibition measures).

Within thirty days of notification, the cash handler against whom the charges have been made may submit its counter arguments and requests for a hearing or for an extension of the time limit which as a rule may not exceed fifteen days (the procedures are the same as those for the start of sanction proceedings).

The two hundred and forty days for concluding the proceedings continue to apply from the expiry of the deadline for submitting counter arguments to the initial formal charges.

2. The investigation

The requirements relating to the investigation of the procedure are handled by the General Cashier Directorate, the organizational unit responsible for the proceeding.

¹⁰The notification of charges indicates, among other things, the organizational unit responsible for the sanction procedure, to which the counter arguments and the records of the procedure, including any requests for extensions, access or personal hearings are to be sent. The notification of charges also indicates the organizational unit where the investigation documents may be examined.

The General Cashier Directorate analyses all the elements of the investigation acquired from the documents of the sanction procedure and sends the documents to the Commission on Cash Handler Irregularities, established at the Bank of Italy.

The following are members of the Commission:

- Head of the Directorate General of Currency Circulation (Chairman);
- Head of the General Cashier Directorate;
- Head of the Banknotes Directorate;
- Head of the Coordination and External Relations Directorate, or a designated representative from this Directorate.

The Head of the Legal Services Directorate or a designed lawyer attends the meetings to provide legal assistance.

In case of the absence or impediment of the Head of the General Directorate for Currency Circulation, the Head of the General Cashier Directorate acts as Chairman; in this case, the latter is in turn substituted by the Deputy Head or by another specifically delegated person as Head of Directorate on the Commission.

In the case of sanction procedures concerning cash handlers that are also supervised by the Bank of Italy, the Commission is supplemented, according to their respective supervisory tasks, by the Heads of the Directorates of the Financial Supervision and Regulation Directorate General or by the relevant branch manager, who generally participate by means of telecommunication.

Having examined the documents of the procedure, the Commission expresses a binding opinion to be presented subsequently to the Governing Board by the General Cashier Directorate.

Having obtained the binding opinion of the Commission, the General Cashier Directorate concludes its examination by proposing the imposition of sanctions or the closing of the sanction proceedings. In evaluating irregularities, the General Cashier Directorate takes account of the specific corrective measures adopted vis-à-vis the cash handler under the provisions in force.

- *omissis* -

3. The decision

In accordance with the principle of the separation between the investigation phase and the decision-making phase, the decision to impose sanctions or to close the sanction procedure is taken by the Governing Board, having obtained the opinion of the General Counsel, in compliance with the provisions of the Statute of the Bank of Italy.

The Governing Board may request a supplementary investigation; it may also depart from the results of the investigation, indicating the grounds for this in the final measure. Any measure for imposing sanctions will be adopted within two hundred and forty days of the expiry of the deadline for the cash handler against whom the charges have been made to present counter arguments or of the presentation of counter arguments, if this occurs before the expiry date.

The possibility of adopting corrective measures or prohibition measures against cash handlers remains unaffected during every phase of the procedure.

The Bank of Italy notifies the sanction measure to the cash handler and publishes it on Bank of Italy website; the cash handler is also notified of the proposal for sanctions, the opinion of the Commission and the opinion of the General Counsel.

The notification of the sanction measure to the cash handler must take place according to Articles 145 et seq of the Code of Civil Procedures.¹¹

¹¹ More specifically, the notification must take place at the company's registered office, with a certified copy of the original being consigned to a representative of the company or to a person designated to receive notifications or, in their absence, to another designated company person or the caretaker of the building where the company is located, by a court officer or a specifically designated Bank of Italy official, or with the help of the branches indicated in each instance. If the notification is carried out by a Bank of Italy official, the legal status of the company must be identified, as must the person who is the legal representative, by means of a chamber of commerce certificate. Furthermore, the court officer or the person designated by the Bank must certify the notification with a signed and dated report, which is attached to the original notification and to the copy of the document. The report indicates the person to whom the copy was consigned and their role, together with the place of delivery.

CHAPTER VII

REFERENCES TO OTHER AUTHORITIES

If the controls on cash handlers turn up evidence which might be of interest to other authorities in relation to the tasks assigned to them by law (e.g. the Ministry of the Interior in the case of cash handlers holding an authorization issued under Article 134 of the Consolidated Law on Public Security, the Ministry of Economy and Finance, the Finance Police and the Financial Intelligence Unit (FIU) for the fight against money laundering with the proceeds of criminal activity and against the financing of terrorism) or which could have implications under criminal law, the procedures set out below will be followed.

1. Notification to the judicial authorities

In cases where criminal activity is immediately obvious, as for example in cases where criminal acts are clearly evident during on-site inspections, the Head of the General Cashier Directorate is immediately informed by the inspection team leader and sends the complaint/report directly to the judicial authorities, without a prior assessment by the Commission, which may be informed at a later date.

Where the potentially criminal importance of the offence emerges during the examination by the Commission, it evaluates whether the complaint/report should be sent by the Head of the General Cashier Directorate, who then informs the Governing Board if necessary.

In cases of contiguity between checks on cash handlers and banking supervision, for example in the event of inspections on banks that have not outsourced cash handling activities, where the inspections are carried out at the same time as ordinary banking supervision, Article 7 of the Consolidated Law on Banking may be applied, as well as the relative procedure for evaluating matters of criminal importance.

The same rules apply as those for the convening, composition and functioning of the Commission in connection with the administrative sanction procedure.

2. Notification to other authorities

Whenever inspections or off-site controls find matters of possible interest to other authorities or supervisory other than the judicial authorities (for example: Ministry of the Interior, Ministry of Economy and Finance and the Finance Police), the Head of the General Cashier Directorate, after evaluating all the evidence available, may:

- decide to take no further action;
- send reports to the competent authorities.

In the case of information regarding irregularities which could be important for the FIU, the General Cashier Directorate will transmit the information directly to the Unit.

Reports concerning supervised intermediaries will be made known to the Bank of Italy Directorates or branches competent for supervising the intermediary, and to the Financial Supervision and Regulation Directorate as regards reports to the Financial Intelligence Unit.

The possibility for the General Cashier Directorate to convene the Commission on Cash Handler Irregularities where the cases require a more thorough investigation or involve particularly complex aspects will not be affected.

CHAPTER VIII
COOPERATION WITH HEAD OFFICE DIRECTORATES
AND WITH BRANCHES

The General Cashier Directorate will inform the Directorates of the Directorate General for Financial Supervision and Regulation and those of the Directorate General for Markets and Payment Systems and the branches of everything found during controls on cash handlers having relevance for the supervision respectively of banks, Poste Italiane SpA, electronic money institutions and payment institutions and for the oversight of payment systems. If aspects of relevance for the application of supervisory regulations and provisions are found, the General Cashier Directorate will inform the Regulation and Macprudential Analysis Directorate.

In particular, to carry out tasks connected with administrative procedures for checks headed by both centralized and decentralized Supervision on outsourced activities, information is exchanged with the Supervisory Directorates in relation to cash handling activities outsourced by banks.