

## **Order of 22 June 2016**

### **Measures relating to the authenticity and fitness checking and recirculation of euro banknotes**

#### **THE BANK OF ITALY**

- Having regard to Decision 2010/14 of the European Central Bank of 16 September 2010, in relation to checks on the authenticity and fitness of euro banknotes and their recirculation, as amended by Decision 2012/19 of the European Central Bank of 7 September 2012;
- Having regard to Article 97 of Decree Law 1/2012, ‘Urgent provisions on competition, infrastructure development and competitiveness’ converted into Law 27/2012 which lays down standards for protecting the euro against counterfeiting (‘Amendments to Decree Law 350/2001 converted into Law 409/2001, as well as to Decree Law 262/2006 converted into Law 286/2006’);
- Having particular regard to paragraph 1 of the said Article which replaces Article 8 of Decree Law 350/2001, specifying the obligations of cash handlers to safeguard the authenticity and fitness for circulation of euro banknotes, and in particular paragraph 9 thereof, which gives the Bank of Italy the power to issue implementing measures also in respect of the procedures and organization necessary to handle cash as well as the data and information that cash handlers are required to submit;
- Having regard to paragraph 7 of the said Article 8, which gives the Bank of Italy powers of inspection over cash handlers;
- Having regard to the amendments made to Article 145 of Decree Law 385/1993 by Legislative Decree 72/2015;
- Having regard to Article 146 of Legislative Decree 385/1993;
- Having regard to Decision 2013/10 of the European Central Bank of 19 April 2013, relating to denominations, specifications, reproductions, exchange and withdrawal of euro banknotes;
- Whereas the protection of the integrity and the good condition of the banknotes is essential to maintain public faith in them as a method of payment and that this requires their being subject to authenticity checks to quickly identify counterfeits and to verify fitness so as to ascertain that the condition of the banknotes in circulation is of a good standard;
- Whereas suspect euro banknotes must be quickly detected and handed over to the competent national authorities;
- Whereas the said ECB Decision 2010/14 has specified common rules and procedures for the checking of the authenticity and fitness of euro banknotes and their recirculation;
- Whereas the experience acquired in the inspection and remote monitoring of cash handlers following the entry into force of the Order of the Bank of Italy of 14 February 2012;

**adopts the following Order:**

Article 1

The provisions set forth in Annex 1, which are an integral part of the present Order, shall apply to cash handlers.

The parties that intend to engage in cash handling shall send prior notification to the Bank of Italy according to the abovementioned provisions; cash handlers shall also notify the Bank of Italy when they cease their activities.

Article 2

The list of administrative procedures within the competence of the Bank of Italy, attached to the Order of 22 June 2010, is supplemented by the procedures contained in Annex 2 of the present Order.

Article 3

The present Order enters into force on the fifteenth day after the date of publication in the *Gazzetta Ufficiale della Repubblica Italiana*.

The Orders of the Bank of Italy of 14 February 2012 and 28 January 2014 are repealed.  
Rome, 22 June 2016

The Governor

**BANK OF ITALY**

**PROVISIONS ON CASH HANDLING ACTIVITIES**

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## **ANNEXES**

- Minimum requirements for automated checks on the fitness of euro banknotes.
- Minimum requirements for manual checks on the fitness of euro banknotes.
- Equipment for the authentication and sorting of banknotes.
- Report forms for cash handling.
- Information for compiling a written report on the withdrawal of suspect banknotes.

## **REGULATORY SOURCES**

COUNCIL REGULATION (EC) No. 1338/2001 of 28 June 2001 laying down measures necessary for the protection of the euro against counterfeiting.

COUNCIL REGULATION (EC) No. 44/2009 of 18 December 2008 amending Regulation (EC) No. 1338/2001 laying down measures necessary for the protection of the euro against counterfeiting.

DECISION OF THE EUROPEAN CENTRAL BANK of 16 September 2010 on the authenticity and fitness checking and recirculation of euro banknotes (ECB/2010/14).

DECISION OF THE EUROPEAN CENTRAL BANK of 7 September 2012 amending the ECB Decision of 16 September 2010 on checking the authenticity and fitness of euro banknotes and their recirculation (ECB/2012/19).

DECISION OF THE EUROPEAN CENTRAL BANK of 19 April 2013 on denominations, specifications, reproductions, exchange and withdrawal of euro banknotes (ECB/2013/10).

Article 8 of Decree Law 350/2001, converted into Law 409/2001, as replaced by Article 97 of Decree Law 1/2012, converted into Law 27/2012.

## DEFINITIONS

In the current Order the following definitions apply:

- ‘compliant machine’: a machine for the authentication or the authentication and sorting of euro banknotes that has been successfully tested by a national central bank of the Eurosystem and is included in the appropriate list published on the European Central Bank’s website;
- ‘cash handling’: activities aimed at preserving the integrity and good condition of banknotes by:
  - a) identifying suspect banknotes by checking their distinctive characteristics and security features (authenticity checks);
  - b) checking those banknotes which, based on their condition, are fit to be put back into circulation, both in teller counter operations and via automated teller machines (fitness checking);
- ‘banknotes’: banknotes denominated in euros;
- ‘damaged banknotes’: banknotes made unfit for circulation for reasons other than physical wear and tear, such as, for example, mutilation or deterioration caused by anti-theft devices, water, fire, mould and dampness;
- ‘ECB’: the European Central Bank;
- ‘NCB’: a national central bank of the Eurosystem;
- National Service Card (NSC): a 2-factor authentication system to access the Cash Portal which, as part of the national technical and legal framework, is a computerized document for electronically accessing the services provided by general government (Presidential Decree No. 117 of 2 March 2004, ‘Regulation on the distribution of the National Service Card’ and the related technical rules issued on 9 December 2004);
- ‘cash dispenser’: a customer-operated machine which, through the use of a bank card or other means, dispenses euro banknotes to the public, debiting a bank account. ATMs and self-checkout terminals (SCoTs), with which the public can pay for goods or services either with bank cards, cash or other payment instruments having a cash withdrawal function, are considered cash dispensers;
- ‘Eurosystem’: the ECB and the NCBs of the European Union member states whose currency is the euro;
- Remote branch: a branch of a credit institution or of Poste Italiane S.p.A., authorized by the Bank of Italy to carry out manual checks on the fitness of banknotes dispensed by automatic devices;

- ‘cash handlers’: the parties that are required to check the integrity and condition of euro banknotes for the purpose of identifying suspect banknotes and banknotes which owing to wear and tear are no longer fit for circulation. These are:
  - o banks;
  - o within the limits of the supplying of payment services involving the use of cash, Poste Italiane S.p.A., electronic money institutions according to Article 1(2)(h-bis) of the Consolidated Law on Banking (TUB), payment institutions according to Article 1 (2)(h-sexies) of the TUB and other payment service providers according to Article 114-sexies of the TUB;
  - o other economic agents that take part in the handling and distribution of banknotes to the public, including:
    - a) parties (service companies) that carry out banknote counting, and banknote authenticity and fitness checks at professional level, including parties authorized for the transport and custody of cash pursuant to Article 14(1)(b) of Legislative Decree 231/2007;
    - b) parties that carry out currency exchanges at professional level, consisting in spot trading of means of payment in foreign currencies;
    - c) other parties, such as traders and casinos, engaged on a secondary basis in the processing and distribution of banknotes to the public via automatic teller machines, within the scope of this activity;
  - o Italian branches of foreign parties that are part of the categories of agents indicated above;
- GS1: an integrated system of standards that assigns unique international codes to products, services and places. These codes are distributed by the GS1 Association, an international non-profit organization, through its national representatives. The following GS1 system codes are important for statistical reports:
  - a) GLN – *Global Location Number*: for the unique identification of a physical location belonging to a given party (e.g. a counting room);
  - b) GTIN – *Global Trade Item Number*: for the unique identification of products that are reported (e.g. denomination and type of banknotes);
- *Help desk*: General Cashier Directorate of the Bank of Italy;
- Indicod-ECR: an association for the exclusive distribution of GS1 codes for Italy;
- ‘future staff members’: cash handlers’ employees that have: a) knowledge of the various public security features of euro banknotes, as specified and published by the Eurosystem, and the ability to check them; b) knowledge of the sorting criteria listed in Annex 2 and the ability to check euro banknotes following these criteria;

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The Italian text alone is authentic.



- ‘cash portal’: an information system for acquiring statistical reports from cash handlers. It consists of an Internet application portal, accessible via user-to-application logic (U2A);
- ‘Recirculation’: putting back into circulation euro banknotes that cash handlers have received from the public (as a payment or a deposit) or from another cash handler, either at a teller counter or by means of automatic teller machines,;
- ‘user’: a natural person who accedes to a cash portal to forward statistical reports;
- XML (*eXtensible Markup Language*): the language chosen to structure and standardize messages to be sent to the Bank of Italy via the cash portal.

## CHAPTER I

### CASH HANDLING ACTIVITIES

Cash handling activities are aimed at preserving the integrity and good condition of banknotes by:

- a) identifying banknotes suspected of being counterfeit, by verifying their distinctive and security features (authenticity checks);
- b) checking banknotes which, due to their state of preservation, are fit to be put back into circulation both at bank teller counters and via automatic teller machines. Checking that banknotes have the qualitative features that make them fit to remain in circulation (fitness checking) should comply with the minimum requirements set out in Annexes 1 and 2.

Authenticity and fitness checks shall be carried out using compliant machines; the types of these machines are described in Annex 3. A list of compliant machines is published on the ECB website; the cancelling of any machine from this list, as the result of failing a test, will be published on the Bank of Italy's website and communicated by the Bank to each cash handler via email.

Parties intending to perform cash handling activities shall send prior notification to the General Cashier Directorate of the Bank of Italy, using the form shown in Annex 4, and shall also communicate the activities to be carried out, the organizational setup and the type of machinery to be used. Cash handlers are also obliged to promptly report any changes to the information submitted previously, with the exception of changes to the machines used, which must be reported as stipulated by the provisions on statistical reports, to which reference shall be made (see Chapter VII).

Cash handlers shall also notify the General Cashier Directorate of the Bank of Italy when they cease their activities.

Banknotes may be put back into circulation by means of automatic teller machines only after authenticity and fitness checks have been carried out using compliant machines. These checks are not required for banknotes supplied directly to a cash handler by an NCB or by another cash handler that has already run such checks in the same way.

Authenticity and fitness checks on banknotes put back into circulation can only be done manually at the counter, when dealing with the public, by ‘trained staff members’.

Subject to prior authorization from the Bank of Italy, the following tasks may be done manually provided that those involved are ‘trained staff members’:

- a. fitness checks on banknotes to be fed by bank, electronic money institution and Poste Italiane S.p.A. employees into automatic teller machines situated in remote locations and with modest levels of at the counter transactions, provided that authenticity checks have been carried out using compliant machines. The request for authorization, complete with all the evaluation elements, shall be sent to Banca d’Italia - Servizio Cassa generale, Via Nazionale 91, 00184 Roma. The person responsible for the procedure is the Head of the General Cashier Directorate. The following shall be indicated in the request: the branch(es) for which the request is being made; the location and the reason why it should be deemed ‘remote’; the number of employees to be considered ‘trained staff members’; the quantity of banknotes (broken down by denomination) recirculated by each branch mentioned in the request in the last 12 months; the model and the hardware and software of the machines used for authenticity checks.

Pursuant to ECB Decision 2010/14 and its subsequent amendments, the volume of euro banknotes dispensed by automatic teller machines by all the remote branches authorized by the Bank of Italy may not exceed 5% of the total dispensed at national level by the abovementioned machines.

For the purpose of granting authorization:

- to assess the remoteness of a location, the time it takes to get to the nearest structure offering cash handling services is considered (Bank of Italy branch and/or service company counting room) and any other factors that may affect transport routes, such as being located in mountainous areas or on islands;
- to determine the modest volume of transactions with the public using ATMs, the volume of withdrawals from the ATMs of the branches in question is assessed.

In particular, authorization is granted based on the indicators decided for each of the abovementioned variables and published on the Bank of Italy website.

- b. Authenticity and fitness checks on banknotes to be fed by bank, electronic money institution and Poste Italiane S.p.A. employees into automatic teller machines when there are exceptional and temporary circumstances that significantly affect the supply of banknotes. The request for authorization, along with all the elements giving rise to the exceptional circumstances, shall be sent to Banca d’Italia - Servizio Cassa generale, Via Nazionale 91,

00184 Roma. The person responsible for the procedure is the Head of the General Cashier Directorate. The following shall be indicated in the request: 1) the nature of the exceptional event and the reasons why it is not possible to ensure a regular supply of banknotes; 2) the geographical area affected by the exceptional event and the branches for which authorization is requested; 3) the length of time expected for the manual processing of banknotes for recirculation purposes; 4) the number of employees to be considered as trained staff members for each branch for which authorization is requested.

If exceptional events occur, the Bank of Italy may on its own initiative proceed to authorize manual cash handling.

Requests for authorization under a) and b) are subject to the administrative procedures included in the Regulation of the Bank of Italy dated 22 June 2010 on identifying the terms and the organizational units responsible for the administrative procedures for which the Bank of Italy is responsible, pursuant to Articles 2 and 4 of Law 241/1990 and subsequent amendments thereof. The deadline for the conclusion of these procedures is 90 days, starting from the date on which the request is received.

## CHAPTER II

### ORGANIZATIONAL REQUIREMENTS

#### *1. Introduction*

Cash handlers shall comply with the organizational requirements described below so that cash handling activities are carried out according to established production processes in compliance with the reference regulations to protect against the specific risks of recirculation and, more generally, the operational risks linked to cash handling activities.

The Bank of Italy shall monitor their application according to the principle of proportionality, classified based on the size and complexity of the transactions carried out by handlers.

#### *1.1 Technological resources and equipment*

Cash handlers must have adequate technological resources and make exclusive use of compliant machines, as provided for in Chapter I. The compliant machines – together with the other production factors – must be suitable for the volume of banknotes to be processed.

These machines must be compliant with the hardware and software versions published on the ECB website; they must also be used with the standard factory settings, including any updates thereof, unless more restrictive settings have been agreed between the Bank of Italy and the cash handlers. Handlers must therefore periodically check whether the software installed in their machinery corresponds to that indicated on the list of machinery published on the ECB website.

Contracts for the supplying of machines must clearly state that their installation and operation are in compliance with the standards published on the ECB website and that maintenance of these standards is monitored as part of periodical maintenance activities. Furthermore, contracts must include the suppliers' commitment to notify cash handlers promptly of any changes in the machinery software and the removal of machines from the ECB list.

#### *1.2 Human resources*

Cash handlers are obliged to use staff with professional skills suitable for the tasks to be carried out and that are constantly trained by means of appropriate training courses. Updating sessions must be scheduled periodically on changes to the regulatory frame of reference and to share best practices for the activities carried out.

Staff handling cash must have knowledge of the various public security features of banknotes, as specified and published by the Eurosystem, and the ability to check them. Moreover, when circumstances permit manual checks, staff must have knowledge of the sorting criteria indicated in Annex 2 and must be able to check banknotes according to these criteria.

These parties shall also be aware of the regulatory provisions, of the correct way to operate the machinery and other instruments supporting their work (e.g. IT procedure) so as to quickly recognize the signs of malfunctions and help with the precise recording of management operations to ensure that the administrative and counting system is provided with correct information.

Non-employees who handle banknotes must also comply with the abovementioned principles.

### ***1.3 Operating procedures for cash handling***

Cash handlers shall adopt documented procedures for carrying out the various phases in the cash handling process, indicating the workers' responsibilities. In particular:

a) operational conditions need to be defined for each phase of banknote processing, which allow constant reporting to the party depositing the processed banknotes and the prompt and distinct management of banknotes suspected of being counterfeit, those deemed unfit for circulation (including damaged ones) and those fit for recirculation. The placing of banknotes in safe-deposit rooms shall satisfy the same criteria. For the purposes of applying these segregation criteria, the following shall be noted:

- for cash handling activities carried out directly, banks and Poste Italiane S.p.A. are obliged to report regularly to the party that has deposited banknotes selected as suspected counterfeits. Once these counterfeits have been detected, banknotes may be handled without distinction;
- service companies shall report suspect banknotes that were detected in the processing of the cash to each of the parties from whom they were acquired and, further, keep the remaining banknotes being handled subdivided among individual banks, Poste Italiane S.p.A. and other parties (e.g. mass retailing operators) for the part attributable to each of these;
- when authentication and sorting take place in different phases, they must be carried out in a sequence so that the processing cycle is completed on the same working day, except in exceptional and unpredictable cases, when handlers shall guarantee the orderly storage of semi-processed banknotes and ensure the proper reporting as well as the traceability of banknotes to the depositors;

b) procedures shall be defined for the prompt compilation of the reports on the withdrawal of banknotes suspected of being counterfeit and for sending them to the Bank of Italy (see Chapter III); a procedure is also required for delivering banknotes no longer fit for circulation to the Bank of Italy, which can then promptly check the legitimacy and quality of these banknotes;

c) procedures shall be established to prevent the improper use of banknotes attributable to each depositing party, in a way that permits general traceability, proper accounting records and traceability to depositing parties;

d) procedures shall be defined to enable the allocation of responsibility for the quantity and quality of banknotes if they are transferred to another cash handler.

Cash handlers shall prepare internal information flows to ensure that staff are aware of their role and acquainted with the procedures to be followed so as to perform their tasks correctly. Handlers must therefore provide staff with company documentation (organization chart, job descriptions manuals, communications and so on) which specifies the roles assigned and the relative tasks and responsibilities; they shall also make documentation accompanying each machine available to staff (e.g. the user manual, also in electronic form).

#### ***1.4 Internal control structure***

The internal control system shall guarantee compliance with the internal company rules and procedures and provide for the prompt detection of shortcomings and anomalies, reporting them to the competent control authorities and verifying subsequent repair interventions. In this context, it is important to develop a 'control culture' which, according to their roles and responsibilities, makes all staff aware of the risks linked to the activities carried out, together with the adoption of a system to measure operational risks to prevent or contain the impact of potential financial losses.

The following shall be provided:

- first level checks (line) aimed at ensuring the correct performance of banknote processing operations;
- second level checks to be assigned to a unit or to staff not directly involved in the operational activities, who shall periodically check on the currency stored in the vault and check the compliance of the working processes with the procedures adopted and with the contractual commitments undertaken. Moreover, there must be monitoring on anomalous trends, on procedure and regulation

infringements as well as on the functionality and reliability of the overall internal control system;

- a specific internal auditing system for more complex companies (in terms of volumes processed and number of counting rooms);
- a system that allows those responsible for first and second level checks to report anomalies found in the work processes to higher decision-making levels, so as to adopt the necessary corrective measures and check their effectiveness.

It is also necessary to:

- define within the operational procedures the control points, methods and periods of time for which the documentation showing the effective performance of controls must be kept;
- report information on anomalies on cash handling activities to the Bank of Italy.

An integral part of the internal control system is an adequate and efficient IT procedure to support the work processes and that manages the entire cash handling cycle. Moreover, the procedure shall make available periodic reports (daily, weekly, monthly) for the use of staff responsible for carrying out checks and/or managing the company.

### ***1.5 Measures to safeguard the security of banknotes***

Security measures must constantly accompany the handling of banknotes (counting and sorting, packaging, internal movement and shipping, storage and recirculation) with full observation of the regulations governing the sector. To this end, only strictly necessary staff shall have access to where the banknotes are manufactured.

The correct functioning of systems (e.g. video recording equipment) must be ensured to guarantee the security of banknotes/money. Furthermore:

1. the storage of banknotes suspected of being counterfeit and damaged must be organized separately from the rest of the banknotes and must be completely secure (e.g. special cabinets);
2. the handling of banknotes in counting rooms and the movement of money to and from storage areas must always take place in the presence of at least two workers.

## ***2 Outsourcing of cash handling activities***

Cash handlers which outsource, wholly or partly, the handling of banknotes must pay particular attention to assessing the professional skills and organizational adequacy of the party entrusted with this task. In view of the economic, legal and reputational risks involved, the checks carried out when the contractual relationship begins must be accompanied by constant checks on the correct performance of the outsourced activities.

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Parties that outsource remain responsible for ensuring proper compliance with the obligations regarding the rules for cash handling.

The outsourcing party shall stipulate a written contract with the agent which, in establishing adequate levels of service, shall include, among other things:

- the obligation of the agent to comply with the Bank of Italy's provisions as regards the authenticity checks on and sorting of banknotes for recirculation, with particular attention to the exclusive use of compliant machines;
- that the outsourcer may verify the performance of the service rendered, also by accessing the premises of the agent to request corrective measures where necessary;
- the right of the outsourcer to recede, with no penalties, when the counterparty repeatedly violates the contractual obligations;
- the procedures for exchanging information and data.

The adequacy of the control procedures and services in place for outsourced activities and the levels of service ensured by the agent must be verified and assessed, at least annually, by those put in charge of internal controls by cash handlers that outsource.

As regards the outsourcing of cash handling activities by banks and other intermediaries, reference shall be made to the provisions issued by the Bank of Italy regarding its supervisory powers over such parties.

### **CHAPTER III**

#### **REPORTING OBLIGATIONS FOR BANKNOTES SUSPECTED OF BEING COUNTERFEIT**

Cash handlers shall withdraw from circulation and consign to a Bank of Italy branch any banknotes not classified as authentic following automatic authenticity checks or, where permitted, manual checks.

Suspect banknotes shall be consigned immediately and in any case within and no later than 20 working days from the date when the banknotes were received.

The banknotes consigned shall be accompanied by the withdrawal report containing the information as per Annex 5.

The list of branches to which suspect banknotes may be sent or delivered shall be published on the Bank of Italy website.

## CHAPTER IV

### CONTROLS

The Bank of Italy, in order to verify the observance of the provisions governing cash handling, may obtain information, acts and documents and carry out inspections.

Controls carried out on cash handlers are covered by the obligation of official secrecy pursuant to Article 8-ter of Decree Law 350/2001 converted into Law 409/2001, as replaced by Article 97 of Decree Law 1/2012, converted into Law 27/2012.

In carrying out the institutional duties assigned by law to the Bank of Italy with regard to controls on cash handlers, the inspectors hold the title of public officials under Article 357 of the Criminal Code.

During the inspections, the inspectors shall check:

- the organizational structure adopted, including the staff training measures, the functionality of internal controls, and the capacity to manage the risk of putting counterfeit or worn notes back into circulation;
- the compliance of the machines for the authentication and sorting of banknotes with the rules according to ECB Decision 2010/14;
- the functioning of the abovementioned machines and in particular their ability to carry out authenticity and fitness checks;
- the procedures governing the operation and control of the abovementioned machines;
- the handling of the banknotes submitted for checking;
- the way the manual authenticity and fitness checks are performed.

In order to carry out controls on cash handlers subject to inspection by the Finance Police (Guardia di Finanza) pursuant to Article 53(2) of Legislative Decree 231/2007 and subsequent amendments thereof, the Bank of Italy may, also on the basis of specific memoranda of understanding drawn up to that effect, work with the aforesaid Police, which shall carry out the required checks under its powers to audit value added tax and income tax.

Inspected cash handlers shall cooperate to the maximum extent in the performance of controls. Failure to cooperate shall be considered in and of itself as non-compliance and punishable pursuant to Chapter VI.

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Inspections shall be carried out by Bank of Italy employees provided with a letter of appointment signed by the Governor or by his/her representative.

Inspectors may ask for any document or act which they deem necessary, carry out checks on banknotes processed by the cash handlers and – having prepared a specific handover document – take samples of banknotes so as to submit them for authenticity and fitness checks at the Bank of Italy; in this case the inspected party has the right to have its own representative present for the checks.

Within 90 days of concluding the controls, cash handlers shall be notified of the inspection results in writing, and may also receive them during a special meeting with the cash handlers and their *pro tempore* legal representative. This term may be interrupted whenever the need to acquire new information arises.

Within 30 days of being notified, the cash handler shall communicate its comments on the inspection report's findings and observations to the Bank of Italy, and report on any measures already taken or to be taken to rectify the irregularities found.

Where the irregularities found require the start of sanctioning proceedings, the provisions of Chapter VI shall apply.

## CHAPTER V

### CORRECTIVE ACTIONS AND PROHIBITION PROVISIONS

When the provisions governing cash handling activities are not observed, the Bank of Italy, aside from the provisions on pecuniary administrative sanctions (see Chapter VI), may ask the cash handler to adopt corrective measures, according to the seriousness of the irregularities found, indicating the timeframe for their adoption.

When the inspections carried out by the Bank of Italy find evidence of a situation where there is a high risk of counterfeit or unfit banknotes being put back into circulation, a measure to prohibit recirculation may be adopted.

Until the non-compliance found has been remedied, the Bank of Italy may, within 120 days of observing the irregularity, adopt a provision to prohibit the putting of banknotes back into circulation.<sup>1</sup>

The prohibition provision may be adopted in the event of:

- a) a high level of organizational disorder that entails a high risk of unfit and suspect banknotes being put back into circulation;
- b) repeated and serious infringements of the obligations provided for by the rules governing cash handling activities.

In the above circumstances the provision may be adopted as a precautionary measure.

The prohibition provision shall be adopted as a matter of urgency when the tests on the functioning of cash handling machines carried out during on-site inspections have a negative outcome.

A defect in the type of machinery used for cash handling may lead to the removal of this machinery from the list of compliant machines published on the ECB website.

The prohibition measure adopted by the Bank of Italy as regards cash handlers is also published on the Bank of Italy website.

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<sup>1</sup> The person responsible for the procedure is the Head of the General Cashier Directorate.

## CHAPTER VI

### SANCTIONS AND ADMINISTRATIVE SANCTION PROCEEDINGS

#### *1. Introduction*

Pursuant to Article 8(10) of Decree Law 350/2001, as replaced by Article 97 of Decree Law 1/2012, converted into Law 27/2012, in the event of non-compliance with that Decree Law article or with ECB Decision 2010/14 and subsequent amendments thereto and with the present Order, the Bank of Italy shall apply a pecuniary administrative sanction of between €5,000 and € 50,000 to cash handlers.

The regulations on sanctions respond to the need to ensure that cash handling activities are carried out in compliance with the rules governing the checks on the authenticity and fitness of banknotes.

The presentation of a written defence and the possibility, during the investigation phase, of requesting a hearing are both in observance of the principles of the adversarial system and of participation in the proceedings, which are corollary to the right to a defence of the parties subject to the legal effects of the administrative proceedings.

Infringements of the provisions governing cash handling by banks and other financial intermediaries and providers of payment services shall be assessed by the Bank of Italy also as regards their possible importance for the supervisory activities granted to such parties by the rules governing the sector.

#### *2. Criteria for determining sanctions*

The amount of the pecuniary sanction, laid down within the limits indicated by the law, is determined taking into account all the relevant circumstances in order to understand the significance of the infringement and the degree of offensiveness or dangerousness of a particular case.

For these purposes, the possible consequences of the infringement found on the integrity and good condition of banknotes in circulation, also in relation to the extent of the activities carried out by the cash handler.

In addition, as regards the type of infringement, the following factors are taken into account:

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- the duration of the infringement;
- the seriousness of the particular infringement, with regard to:
  - its effects, including potential ones, on customers, on other qualified stakeholders or on the market;
  - the possible recourse to measures for prohibiting cash handlers from putting banknotes back into circulation;
  - the cases in which, due to one act or omission, various provisions are infringed or one provision is infringed several times;
- the repetition of the infringement;
- action taken to eliminate or mitigate the consequences of the infringement, including cooperation with the control authorities.

### ***3. Person responsible for the proceeding***

The person responsible for the administrative sanction proceeding is the Head of the General Cashier Directorate (Servizio Cassa Generale).

The provisions of the Regulation of the Bank of Italy of 22 June 2010 specifying the terms and the organizational units responsible for administrative proceedings that fall within the scope of the Bank of Italy's responsibility shall apply, pursuant to Articles 2 and 4 of Law 241/1990 and subsequent amendments thereto.

### ***4. Stages of the proceedings***

The procedure for applying administrative sanctions is divided into the following phases: start of sanction proceedings, investigation, and decision.

#### ***4.1. Start of sanction proceedings***

Administrative sanction proceedings, governed by Article 145 of the Consolidated Law on Banking and subsequent amendments thereof, shall be started by a formal complaint from the Bank of Italy against the party deemed responsible for the infringements found and shall be laid down by the General Cashier Directorate.

The formal charge of irregularities by cash handlers shall be made by the Bank of Italy in accordance with the procedures provided by Law 689/81 and within the terms set by the current provisions, which begin from the conclusion of the phase of discovery of irregularities.

The letter of charges shall designate the General Cashier Directorate as the organizational unit to which a written defence or requests for hearings must be submitted within 30 days of notice, in which the parties involved may participate with the assistance of a lawyer and

examine the investigation documents. Where there are particular reasons which prevent observance of the 30-day deadline for the submission of a written defence or when a request for a hearing has been submitted, the cash handler may request a brief extension (usually no longer than 15 days).

Failure to submit a written defence shall not prejudice the continuation of the sanction proceedings.

#### **4.2. Investigation**

The obligations in connection with the proceeding's investigation shall be dealt with by the General Cashier Directorate (Servizio Cassa Generale), the organizational unit responsible for the proceeding.

The General Cashier Directorate shall analyse all the investigation evidence acquired for the acts of the sanction proceeding and shall submit the acts to the Commission handling the cash handler's irregularities, set up by the Bank of Italy.

Having examined the acts of the proceeding, the Commission shall formulate a binding opinion for the purpose of a subsequent proposal to the Governing Board by the General Cashier Directorate with regard to the application of administrative sanctions or to the dismissal of the case.

The proposal is submitted to the Governing Board, together with the acts of the proceeding.

#### **4.3. Decision**

In accordance with the principle of separation between the investigation stage and the decision stage, the decision to impose sanctions or dismiss the case is taken by the Governing Board, having sought the opinion of the General Counsel – or, in the case of absence or impediment, of the Chief legal Counsel – in compliance with the provisions of the Bank of Italy Statute.

The Governing Board may request further investigations and may likewise deviate from the results of the investigation, indicating the grounds for so doing in the final decision.

Any imposition of sanctions shall be adopted within 240 days of the deadline for submitting a written defence.

In each phase of the proceedings there is always the possibility of adopting specific measures with regard to cash handlers, pursuant to



the provisions in Chapter V – Corrective action and prohibition provisions.

The Bank of Italy shall notify the cash handler of the sanction measure together with the reasons for it and arrange for it to be published on the Bank's website.

In the event that the decision to apply sanctions is appealed to the judicial authority, the Bank of Italy shall announce the start of the legal action and its outcome on its website together with the publication.

The Bank of Italy, taking into account the nature of the infringement and the parties involved, may establish additional ways to publicize the provision, charging the related costs to the infringer.

#### ***4.4 Payment of sanctions and appeal against the decision***

Pursuant to Article 145(9) of the TUB, the collecting of the administrative sanctions shall be carried out following the terms and conditions provided for by Presidential Decree 602/1973, as amended by Legislative Decree 46/1999 and subsequent amendments thereof and additions thereto.

An appeal may be lodged with the Court of Appeal in Rome against the provision for applying the sanction. The appeal shall not lead to the enforcement of the provision being suspended.

## CHAPTER VII

### STATISTICAL REPORTS FROM CASH HANDLERS

#### *1. Introduction*

Cash handlers that qualify as reporting agents (see para. 2) shall send periodical information to the Bank of Italy that is used to monitor banknote recirculation and developments in the cash cycle. The Bank of Italy may publish reports and statistics using the data obtained, grouping them in such a way that they cannot be attributed to individual reporting agents.

Even when a reporting agent outsources the preparation of reports, it shall still be responsible for the accuracy of the information sent to the Bank of Italy and for compliance with the deadlines for submitting reports.

The parties required to submit statistical reports, the contents of the information to be sent to the Bank of Italy and the frequency of reports are defined below.

Technical instructions on how to submit reports are given in the Guide for the Compilation of Cash Handler Statistical Reports (“Manuale operativo per le segnalazioni statistiche dei gestori del contante”) available to operators on the Bank of Italy website.

The Bank of Italy’s Organization Directorate (Servizio Organizzazione), via Nazionale 91, 00184 Rome shall be responsible for handling the data relating to cash handlers.

The person responsible for the data handling shall be the pro tempore Head of the General Cashier Directorate.

Some data may come to the attention of the abovementioned person responsible and, as authorized, the employees of the branches and directorates assigned to supervise cash handlers.

#### *2. Reporting agents*

The reports must be prepared by the cash handlers that deal with recirculation by authenticating and sorting banknotes using compliant machines. This category includes both parties that directly handle their own banknotes received from customers (e.g. banks and Poste Italiane S.p.A.) and parties (e.g. service companies) that handle banknotes on behalf of third parties.

Cash handlers that participate in recirculation exclusively via their own cash dispensers must also send reports. These parties are not required to send the entire data set, but rather only report the number of cash dispensers they have and the number of banknotes dispensed (see below).

### ***3. Coding system***

The monitoring of the banknote recirculation by parties required to submit statistical reports requires registers that make it possible to univocally identify the parties and the locations where they perform their activities: for this reason, the GS1 coding system has been adopted.

Each reporting party must have its own GS1 code.

The reporting party shall assign GS1 codes to its registered office, its counting sites and any remote branches.

The reporting party shall be responsible for the proper use of such assigned codes, paying special attention to safeguarding the requirement of uniqueness, including over time, for its registered counting sites.

The various banknote denominations shall be identified in the reports by the GTIN codes supplied by the Bank of Italy.

### ***4. Contents of the statistical reports***

Statistical reports shall contain the information specified below.

#### ***4.1. Counting sites***

These are sites where the cash handler has installed compliant machines (whether they are reserved to the staff or can be used autonomously by customers) which are used for authenticating and sorting banknotes for subsequent recirculation. These include: 'counting rooms', where cash handling is performed exclusively with Staff Operated Machines (SOMs), branches (e.g. banks, post offices, shopping centres and so on) where cash handlers have installed customer-operated cash dispensers (Cash Out Machines or COMs) or Teller Assistant Recycling Machines (TARMs) used to feed automatic recirculation machines such as ATMs.

Cash handlers that participate in recirculation exclusively using their own cash dispensers are not required to report counting sites.

## **4.2 Master data**

For each reported counting site, the cash handler shall report the technological equipment available for handling cash, indicating the number of authentication and sorting machines, separated according to the model, and used for recirculation purposes. Each model shall be uniquely identified by means of a code made available by the Bank of Italy on its cash portal, which identifies the machines according to their hardware and software configuration. In the case of TARMs and Teller Assistant Machines (TAMs), the main mode of use shall also be indicated (customer-operated or staff-operated).

The cash handler shall also report:

1. the total number of cash dispensers according to machine type ('ATM', 'SCoTs' (Self-checkout terminals) or 'other');
2. the total number, subdivided by model, of automatic cash machines available to customers that are not used for recirculation (e.g. Cash In Machines - CIMs).

The data under 1 and 2 are not to be subdivided by installation site.

Machines used to handle banknotes distributed exclusively over the counter by trained staff are not subject to the reporting obligations.

## **4.3. Operational data**

Operational data consist in the number of banknotes (flow data) handled during the reporting period (half-year). Such data involve, separately by denomination (identified using the GTIN code made available by the Bank of Italy), the number of:

- banknotes handled using compliant authentication and sorting machines (PROCESSED), indicating the number of banknotes deemed unfit for circulation (WORN) and of those put back into circulation (RECIRCULATED). Data are distinguished according to counting site and, for each site, according to the owner of the banknotes handled. 'Owner' shall mean:
  - a. for a reporting party that directly handles its own banknotes which come from its customers (e.g. banks and Poste Italiane S.p.A.), the reporting party itself;
  - b. for a reporting party that handles banknotes on behalf of third parties (e.g. service companies), the party on behalf of which the service is performed.

The data must be reported by the cash handler that has handled the banknotes. In the case of outsourced cash handling activities, the parties (outsourcer and agent) shall specify and promptly notify the Bank of Italy about which party is required to send the data.

Where the processing procedure adopted by the reporting party provides for a first phase of counting and authenticity checks and a second phase of fitness sorting, which may or not be associated with a new authenticity check, the process shall be only be counted once for the purposes of calculating the numbers to be reported:

- total banknotes dispensed via cash dispensers;
- banknotes dispensed via cash dispensers used at remote branches.

### ***5. How to send statistical reports***

Reports shall be made electronically using functions made available on the Bank of Italy's Cash Portal (CASH - IT) which allow files to be downloaded onto the site in XML format.

Access to the portal is via <https://cash.bancaditalia.it>.

A reporting agent may assign the task of sending reports through the Portal to one or more users.

Moreover, a user may be appointed by more than one reporting agent. In this case the user can forward reports related to several reporting agents by sending a single XML message.

For accreditation to the Portal, the reporting agent shall notify the Bank of Italy of information related to the chosen users by certified email.

The reporting agent shall subsequently send the X.509 digital certificates of the national Services Card via certified email for all the users for whom authorization has been requested. In the same way the agent shall forward requests for cancelling or modifying the users that were previously reported.

Reporting agents shall refer to the Operations Guide for the sending of statistical reports. In any case, it is specified that:

before sending data to the Bank of Italy, the relative XML files must undergo formal coherence checks using the XSD file supplied to the reporting agents by the Bank of Italy;

the correction of the reports of master and operational data may only be made after correction, by resending the full data set. Therefore reports of partial corrections are not permitted.

### ***6. Frequency of reports***

Reports related to system data and operational data shall be sent twice a year in the periods indicated below:

REFERENCE PERIOD	PERIOD FOR SENDING REPORTS
FIRST HALF OF THE YEAR	1 July - 31 August
SECOND HALF OF THE YEAR	1 January - 28 February

Counting sites shall be reported when they are first opened. Furthermore, cash handlers shall promptly notify the Bank of Italy, and in any case no later than the deadline of 30 days, of the cessation of activity or any change of address, in order to keep the information on cash handling sites constantly updated.

## **ANNEX**

- 1) **MINIMUM STANDARDS FOR AUTOMATED FITNESS CHECKING OF EURO BANKNOTES**
- 2) **MINIMUM STANDARDS FOR MANUAL FITNESS CHECKING OF EURO BANKNOTES**
- 3) **BANKNOTE HANDLING MACHINES**
- 4) **REPORTING FORM FOR CASH HANDLING ACTIVITIES**
- 5) **INFORMATION FOR COMPILING THE WRITTEN REPORT ON THE WITHDRAWAL OF SUSPECT BANKNOTES**

## ANNEX IIIa

## MINIMUM STANDARDS FOR AUTOMATED FITNESS CHECKING OF EURO BANKNOTES

This Annex lays down minimum standards for automated fitness checking of euro banknotes by banknote handling machines.

In the course of the fitness checks, euro banknotes with any defect in respect of which a mandatory requirement has been defined as set out below are unfit.

The acceptable tolerance level for the fitness checks by banknote handling machines is 5 %. This means that a maximum of 5 % of the euro banknotes that do not meet the fitness criteria may be misclassified by the machines and sorted as fit.

Table 1

List of sorting criteria for automated fitness sorting

Defect	Definition
1. Soil	General distribution of dirt across the entire euro banknote
2. Stain	Localized concentration of dirt
3. Graffiti	Added image or lettering written or marked in any manner on a euro banknote
4. De-inked note	Lack of ink on part or whole of the euro banknote, e.g. a washed euro banknote
5. Tear	Self-explanatory
6. Hole	Self-explanatory
7. Mutilation	Euro banknotes with part(s) missing, along at least one edge (in contrast to holes)
8. Repair	Parts of one or more euro banknotes joined together by tape or glue or other means
9. Crumples	Multiple random folds
10. Limpness	Structural deterioration resulting in a marked lack of stiffness
11. Fold	Self-explanatory
12. Folded corner	Self-explanatory

## Further information on sorting criteria

## 1. Soil

Soil increases the optical density of euro banknotes. The following table specifies the maximum density increase of limit samples compared to new euro banknotes that euro banknotes may exhibit to be classified as fit:

Table 2

Optical density levels

Denomination	Maximum density increase of limit sample compared to new euro banknote	Filter
EUR 5	0,06	Magenta
EUR 10	0,06	Magenta
EUR 20	0,08	Magenta
EUR 50	0,07	Magenta
EUR 100	0,07	Magenta
EUR 200	0,04	Magenta
EUR 500	0,04	Magenta



Euro banknotes not meeting these criteria are unfit. NCBs keep reference euro banknotes showing a soil level derived from these criteria. The densitometric measurements of the reference euro banknotes are based on the following criteria:

- Standard for density measurements: ISO 5 parts 3 and 4
- Standard for the filters: DIN 16536
- Absolute measurements: standard calibration (white tile)
- Polarisation filter: on
- Aperture: 3 mm
- Illumination: D65/2
- Background: white tile standard calibration

The density increase of a reference banknote is the highest value between the averages of at least four measurement points measured on the front and on the back of the banknote in the unprinted area and without any watermark modulation.

## 2. Stain

Euro banknotes with a localized concentration of dirt covering at least 9 mm by 9 mm in the non-printed area or at least 15 mm by 15 mm in the printed area are unfit.

## 3. Graffiti

At present there is no mandatory requirement to detect graffiti.

## 4. De-inked note

De-inking of euro banknotes can occur, e.g. if they have been washed or subjected to aggressive chemical agents. These kinds of unfit euro banknotes might be detected by image detectors or UV detectors.

## 5. Tear

Euro banknotes with tears which are open and not partly or fully covered by the machine's transport belt(s) are unfit if the size of the tear is greater than indicated below.

Table 3

### Tear

Direction	Width	Length
Vertical	4 mm	8 mm
Horizontal	4 mm	15 mm
Diagonal	4 mm	18 mm (°)

(°) This is measured by drawing a straight line from the peak of the tear to the edge of the banknote where the tear begins (rectangular projection), rather than measuring the length of the tear itself.

## 6. Hole

Euro banknotes with holes which are not partly or fully covered by the machine's transport belt(s) are unfit if the area of the hole is greater than 10 mm<sup>2</sup>.

**7. Mutilation**

Euro banknotes with lengths reduced by 6 mm or more or widths reduced by 5 mm or more are unfit. All measurements relate to differences from the nominal lengths and widths of the euro banknotes.

**8. Repair**

A repaired euro banknote is created by joining parts of euro banknote(s) together, e.g. by using tape or glue. A euro banknote with tape covering an area greater than 10 mm by 40 mm and which is more than 50µm thick is unfit.

**9. Crumples**

Crumpled euro banknotes can normally be identified if their level of reflectance or stiffness is reduced. There is no mandatory requirement.

**10. Limpness**

As far as possible, euro banknotes with very little stiffness are sorted as unfit. As limpness normally correlates with soiling, limp euro banknotes are generally also detected via soil sensors. There is no mandatory requirement.

**11. Fold**

Folded euro banknotes, because of their reduced length or width, can be detected by sensors checking the size of the euro banknotes. In addition, they can be detected by thickness sensors. However, due to technical limitations, only folds fulfilling the criteria laid down for mutilations, i.e. folds leading to a reduction in length greater than 6 mm or a reduction in width greater than 5 mm, can be identified and are unfit.

**12. Folded corner**

A euro banknote with a folded corner with an area of more than 130 mm<sup>2</sup> and a minimum length of the smaller edge greater than 10 mm is unfit.

## ANNEX IIIb

## MINIMUM STANDARDS FOR MANUAL FITNESS CHECKING OF EURO BANKNOTES

This Annex lays down minimum standards for manual fitness checking of euro banknotes by trained staff members.

In the course of the fitness checks, euro banknotes with any defect as set out in the table below, or with a clearly noticeable defect in one of the visible security features, are unfit. However, folded euro banknotes and euro banknotes with folded corners may be rectified by manual unfolding where possible. The fitness checks are carried out by a visual inspection of the individual euro banknotes and do not require the use of any tools.

## List of sorting criteria for manual fitness checking

	Feature	Description
1.	Soil	Visually noticeable distribution of dirt across the euro banknote
2.	Stain	Visually noticeable localized concentration of dirt
3.	Graffiti	Visually noticeable added image or lettering written or marked in any manner on a euro banknote
4.	De-inked note	Visually noticeable lack of ink on part or whole of the euro banknote, e.g. a washed euro banknote
5.	Tear	Euro banknote with at least one tear at the edge
6.	Hole	Euro banknote with at least one visually noticeable hole
7.	Mutilation	Euro banknote with a part/parts missing along at least one edge (in contrast to holes), e.g. a missing corner
8.	Repair	Parts of one or more euro banknotes joined together by tape, glue or other means
9.	Crumples	Euro banknote with multiple random folds across it that strongly affect its visual appearance
10.	Limpness	Euro banknote with structural deterioration resulting in a marked lack of stiffness
11.	Folded euro banknote	Euro banknote that is folded, including a euro banknote that cannot be unfolded
12.	Folded corner	Euro banknote with at least one clearly noticeable folded corner

## ANNEX I

## BANKNOTE HANDLING MACHINES

## 1. General technical requirements

- 1.1. To qualify as a banknote handling machine, a machine has to be capable of processing batches of euro banknotes, classifying the individual euro banknotes and physically separating the euro banknotes according to their classifications without the intervention of the machine operator, subject to Annex IIa and IIb. Banknote handling machines need to have the required number of dedicated output stackers and/or other means to ensure the reliable separation of the euro banknotes processed.
- 1.2. Banknote handling machines have to be adaptable to ensure that they are capable of reliably detecting new counterfeits. Moreover, they have to be adaptable to enable the setting up of more or less restrictive fitness sorting standards, if applicable.

## 2. Categories of banknote handling machines

Banknote handling machines are either customer-operated machines or staff-operated machines:

Table 1

## Customer-operated machines

A. Customer-operated machines where cash is deposited with customer tracing		
1.	Cash-in machines (CIMs)	CIMs allow customers, by using a bank card or other means, to deposit euro banknotes in their bank accounts, but do not have any cash-dispensing function. CIMs check euro banknotes for authenticity and allow for traceability of the account holder; fitness checks are optional
2.	Cash-recycling machines (CRMs)	CRMs allow customers, by using a bank card or other means, to deposit euro banknotes in their bank accounts and to withdraw euro banknotes from their bank accounts. CRMs check euro banknotes for authenticity and fitness and allow for traceability of the account holder. For withdrawals, CRMs may use genuine fit euro banknotes that have been deposited by other customers in previous transactions
3.	Combined cash-in machines (CCMs)	CCMs allow customers, by using a bank card or other means, to deposit euro banknotes in their bank accounts and to withdraw euro banknotes from their bank accounts. CCMs check euro banknotes for authenticity and allow for traceability of the account holder; fitness checks are optional. For withdrawals, CCMs do not use euro banknotes that have been deposited by other customers in previous transactions but only euro banknotes loaded separately into them
B. Other customer-operated machines		
4.	Cash-out machines (COM)	COMs are cash dispensers which check euro banknotes for authenticity and fitness before dispensing them to customers. COMs use euro banknotes loaded into them by cash handlers or other automated systems (e.g. vending machines)

Table 2

**Staff-operated machines**

1.	Banknote processing machines (BPMs)	BPMs check euro banknotes for authenticity and fitness
2.	Banknote authentication machines (BAMs)	BAMs check euro banknotes for authenticity
3.	Teller assistant recycling machines (TARMs)	TARMs are cash recycling machines operated by cash handlers that check euro banknotes for authenticity and fitness. For withdrawals, TARMs may use genuine fit euro banknotes that have been deposited by other customers in previous transactions. In addition, they keep euro banknotes in safe custody and allow cash handlers to credit or debit the bank accounts of customers
4.	Teller assistant machines (TAMs)	TAMs are machines operated by cash handlers that check euro banknotes for authenticity. In addition, they keep euro banknotes in safe custody and allow cash handlers to credit or debit the bank accounts of customers

Where customers feed euro banknotes to be deposited into TARMs or TAMs, or take the euro banknotes dispensed by these machines, these machines have to be considered customer-operated machines and have to classify and treat the euro banknotes in accordance with Annex IIa.

### 3. Types of banknote handling machines

The Eurosystem tests types of banknote handling machines. Types of banknote handling machines can be distinguished from each other through their specific detector systems, software and other components for the performance of their core functionalities. These are: (a) the authentication of genuine euro banknotes; (b) the detection and separation of euro banknotes suspected to be counterfeit; (c) the detection and separation of unfit euro banknotes from fit euro banknotes, if applicable; and (d) the tracing of objects identified as suspect counterfeit euro banknotes and of euro banknotes that are not clearly authenticated, if applicable.

## ANNEX IIa

## CLASSIFICATION AND TREATMENT OF EURO BANKNOTES BY CUSTOMER-OPERATED MACHINES

Euro banknotes are classified into one of the following categories and are physically separated by category. Machines which do not check euro banknotes for fitness do not need to distinguish between categories 4a and 4b.

Table 1

## Classification and treatment of euro banknotes by customer-operated machines in which cash is deposited with customer tracing

Category	Properties	Treatment
1 Objects not recognised as euro banknotes	Not recognised as euro banknotes because of any of the following: <ul style="list-style-type: none"> <li>— non-euro banknotes</li> <li>— euro banknote-like objects</li> <li>— wrong image or format</li> <li>— large folded corner(s) or missing part(s)</li> <li>— feeding or transportation error of the machine</li> </ul>	Return by the machine to the customer
2 Suspect counterfeit euro banknotes	Image and format recognised, but one or more authentication feature checked by the machine not detected or clearly out of tolerance	Withdraw from circulation  To be handed over for authentication, together with information related to the account holder, to the competent national authorities immediately, at the latest 20 working days after deposit in the machine. Do not credit to the account holder
3 Euro banknotes that are not clearly authenticated	Image and format recognised, but not all authentication features checked by the machine are recognised because of quality and/or tolerance deviations. In most cases unfit euro banknotes	Withdraw from circulation.  The euro banknotes are processed separately and handed over for authentication to the competent national authorities immediately, at the latest 20 working days after deposit in the machine  Information on the account holder is stored for eight weeks after the euro banknotes have been detected by the machine. This information is made available on request to the competent national authorities. Alternatively, in agreement with the competent national authorities, information allowing the traceability of the account holder can be handed over together with the euro banknotes to those authorities  May be credited to the account holder
4a Euro banknotes that are identified as genuine and fit	All authenticity and fitness checks carried out by the machine giving positive results	Can be used for recirculation  Credited to the account holder
4b Euro banknotes that are identified as genuine and unfit	All authenticity checks carried out by the machine giving positive results. At least one fitness criterion checked giving a negative result	Cannot be used for recirculation and are returned to the NCB  Credited to the account holder

Categories 2 and 3 euro banknotes are not returned to the customer by a machine if the machine allows the cancellation of a deposit transaction. Retaining such euro banknotes when a transaction is cancelled can be done by storing them in a temporary storage area in the machine.

An NCB may agree with a cash handler that category 3 euro banknotes may not be physically separated from categories 4a and 4b euro banknotes, and that in such a case all three categories must be treated as category 3 euro banknotes.

Table 2

## Classification and treatment of euro banknotes by other customer-operated machines

Category	Properties	Treatment
A (i) Objects not recognised as euro banknotes; or  (ii) suspect counterfeit euro banknotes; or  (iii) euro banknotes that are not clearly authenticated	(i) Not recognised as euro banknotes because of any of the following: — non-euro banknotes — euro banknote-like objects — wrong image or format — large folded corner(s) or missing part(s) — feeding or transportation error of the machine  (ii) Identified as suspect counterfeit euro banknotes because image and format recognised, but one or more authentication feature checked by the machine not detected or clearly out of tolerance  (iii) Euro banknotes that are not clearly authenticated because image and format recognised, but not all authentication features checked by the machine recognised because of quality and/or tolerance deviations. In most cases unfit euro banknotes	Withdraw from circulation  To be handed over for authentication to the competent national authorities immediately, at the latest 20 working days after detection by the machine
B1 Euro banknotes that are identified as genuine and fit	All authenticity and fitness checks carried out by the machine giving positive results	Can be dispensed to customers
B2 Euro banknotes that are identified as genuine and unfit	All authenticity checks carried out by the machine giving positive results. At least one fitness criterion checked giving a negative result	Cannot be dispensed to customers and are returned to the NCB

## ANNEX IIb

## CLASSIFICATION AND TREATMENT OF EURO BANKNOTES BY STAFF-OPERATED MACHINES

Euro banknotes are classified into one of the following categories and are physically separated by category. Machines which do not check euro banknotes for fitness do not need to distinguish between categories B1 and B2.

## Classification and treatment of euro banknotes by staff-operated machines

Category	Properties	Treatment	
A	(i) Objects not recognised as euro banknotes; (ii) suspect counterfeit euro banknotes; or (iii) euro banknotes that are not clearly authenticated	(i) Not recognised as euro banknotes because of any of the following: — non-euro banknotes — euro banknote-like objects — wrong image or format — large folded corner(s) or missing part(s) — feeding or transportation error of the machine (ii) Identified as suspect counterfeit euro banknotes because image and format recognised, but one or more authentication feature checked by the machine not detected or clearly out of tolerance (iii) Euro banknotes that are not clearly authenticated because image and format recognised, but not all authentication features checked by the machine recognised because of quality and/or tolerance deviations. In most cases unfit euro banknotes	Return by the machine to the operator for further evaluation and treatment (i) objects not recognised as euro banknotes: after visual evaluation by a staff member these are separated from the suspect counterfeit euro banknotes and euro banknotes that are not clearly authenticated; (ii) suspect counterfeit euro banknotes; and (iii) euro banknotes that are not clearly authenticated: these are processed separately and handed over for final authentication to the competent national authorities immediately, at the latest 20 working days after deposit in the machine.
B1	Euro banknotes that are identified as genuine and fit	All authenticity and fitness checks carried out by the machine giving positive results Can be used for recirculation. Credited to the account holder	
B2	Euro banknotes that are identified as genuine and unfit	All authenticity checks carried out by the machine giving positive results. At least one fitness criterion checked giving a negative result Cannot be used for recirculation and are returned to the NCB. Credited to the account holder	

## Specific classification and sorting rules for some staff-operated machines

1. BPMs classify and physically sort euro banknotes into categories A, B1 and B2 as set out in Annex IIb, for which at least three dedicated output stackers are needed to avoid the intervention of the machine operator.



2. BPMs with only two dedicated output stackers may however classify and sort euro banknotes if the following requirements are fulfilled:
  - (a) The authenticity and fitness checks are conducted in the same pass. In this pass, any category B1 euro banknotes must be sorted into one stationary output stacker, whereas both category A and B2 euro banknotes must be sorted into a separate stationary output stacker that does not have any physical contact with any category B1 euro banknote.
  - (b) If a category A euro banknote is identified as being present in the second output stacker, the operator must re-run the euro banknote(s) from the second output stacker. In this second pass, euro banknotes suspected to be counterfeits must be separated from the category B2 euro banknotes by sorting the former into a dedicated output stacker.
3. BAMs classify and physically sort euro banknotes into categories A and B, for which at least two dedicated output stackers are needed to avoid the intervention of the machine operator.
4. BAMs with only one dedicated output stacker may however classify and sort euro banknotes if the following requirements are fulfilled:
  - (a) Each time a category A euro banknote is processed, the machine must stop the processing immediately and keep the category A euro banknote in a position that avoids any physical contact with authenticated euro banknotes.
  - (b) The result of the authenticity check must be indicated for any single category A euro banknote on a display.
  - (c) The machine must check for the presence of a category A euro banknote when it stops processing, and processing can only be resumed after the physical removal of the category A euro banknote by the operator.
  - (d) For each stop of the processing mode no more than one category A euro banknote can be accessible to the operator.

REPORTING FORM FOR CASH HANDLING ACTIVITIES (1)

FORM for cash handlers that use machines for authenticating and sorting banknotes and/or cash dispensers

To: BANCA D'ITALIA – AMMINISTRAZIONE CENTRALE

SERVIZIO CASSA GENERALE

VIA NAZIONALE, 91

00184 - ROMA

The undersigned: .....

born in ..... on ..... resident in.....

(2).....as legal representative (3) of

..... Name of cash handler, ABI code ABI (only for banks), fiscal code, address of the registered office and the company's certified electronic email for official communications.

notifies

the performance of the activity of recirculating euro banknotes using machines for authenticating and sorting banknotes and/or cash dispensers.

In this regard, the following information is provided:

TYPE OF OPERATOR (bank, service company, provider of payment services (specify), other operator (specify) .....

GLN CODE OF THE REGISTERED OFFICE (if the cash handler has one) (4)

.....

1 How to send the form is published on the Bank of Italy.

2 Specify position/level/role held at the cash handling company.

3 Attach document demonstrating power of proxy as representative.

4 The GLN code belongs to the GS1 standard which makes it possible to univocally identify products, packaging and locations. The codes are assigned in leasing to the individual parties that apply for them by the national representatives of the GS1 international association, which guarantees their global uniqueness. For Italy, the sole representative for GS1 International is the Indicod-Ecr company.

COMPANY REPRESENTATIVE FOR THE RECIRCULATION OF CASH Name(s), organizational unit, address, telephone number

.....  
.....

E-MAIL (Non-Certified) TO BE USED FOR THE RETURN FLOW OF STATISTICAL REPORTS

.....

INFORMATION FOR COMPILING THE WRITTEN REPORT ON THE WITHDRAWAL OF SUSPECT BANKNOTES.

The written report on the withdrawal of banknotes suspected of being counterfeit shall contain the following:

A) Identifying particulars of the party compiling the report

- 1) Date of report (dd/mm/yyyy/)
- 2) Reporting party
  - company name
  - address
  - street number
  - city
  - postal code
  - province
  - phone number
- 3) ABI Code, if available
- 4) CAB Code, if available
- 5) Any other identifying code
- 6) Date of detection of banknotes suspected of being counterfeit (dd/mm/yyyy)

B) Identifying particulars of withdrawn banknotes

- 1) Denomination
- 2) Series (the letter 'A' identifies the first series issued in 2002, subsequent series are identified by the letters 'B', 'C' and so on)
- 3) First serial number
- 4) Second serial number, only if different from the first one
- 5) Plate number
- 6) Number of banknotes of the same denomination and series, with the same serial number (or the same serial number combinations, see points 3 and 4) and the same plate number

C) Withdrawal procedure

- 1) Withdrawal in the presence of the person presenting the banknote (e.g. at a teller counter)

2) Withdrawal in the absence of the person presenting the banknote (e.g. banknotes found in a customer operated device)

3) Other useful information on relative procedures (e.g. turned in spontaneously by a person who asks for the note's authenticity to be checked, declarations on the provenance of the note by the person presenting it)

D) identifying particulars of the person presenting the note

1) Surname and name

2) Date of birth (dd/mm/yyyy)

3) Place of birth

4) Residence

- address
- street number
- city
- postal code
- province

E) Information to be given to the person presenting the note

1) The banknotes withdrawn as suspected counterfeits are sent for analysis to the National Analysis Centre at the central administration of the Bank of Italy in Rome.

2) If the examination finds that the banknotes are authentic, the Bank of Italy will inform the party compiling the report and reimburse the person who handed in the note for the amount involved.

3) If the examination confirms that they are counterfeit, the Bank of Italy will inform the reporting party; in this case there is, of course, no reimbursement for the person handing in the note.

\* \* \* \*

The report on the withdrawal of suspected counterfeit euro banknotes, signed by the party compiling the report and the person who handed in the notes, if the latter is present, shall be sent with the banknotes – within the deadline specified in Chapter III of this Measure – to one of the Bank of Italy branches indicated on the bank's website in the 'Banknotes and coins' section.

A copy of the report shall be given to the person who handed in the notes.

Pursuant to Article 97(2) of Decree Law 1/2012, the Ministry of Economy and Finance shall establish through its own measure, published in the *Gazzetta Ufficiale della Repubblica Italiana*, the procedures for sending to the Ministry the information and data relating to the withdrawal of suspected counterfeit banknotes from circulation. Parties compiling withdrawal reports may use a report drafted according to the abovementioned provisions in order to send suspected counterfeit banknotes to the Bank of Italy and to give a receipt to the person who handed in the banknotes.

## LIST OF ADMINISTRATIVE PROCEDURES

	<b>PROCEDURE</b>	<b>UNIT RESPONSIBLE</b>	<b>TERM (days/months)</b>	<b>LEGISLATIVE SOURCE</b>
<b>1</b>	Authorization for manual fitness checking of banknotes to feed automatic teller machines at 'remote branches'	General Cashier's Directorate	90 days	<b>Article 8 of Decree Law 350/2001 converted into Law 409/2001, as replaced by Article 97 of Decree Law 1/2012, converted into Law 27/2012</b>  Bank of Italy Order of 22 June 2016
<b>2</b>	Authorization for manual authenticity and fitness checking of banknotes to feed automatic teller machines in exceptional and temporary circumstances	General Cashier's Directorate	90 days	<b>Article 8 of Decree Law 350/2001 converted into Law 409/2001, as replaced by Article 97 of Decree Law 1/2012, converted into Law 27/2012</b>  Bank of Italy Order of 22 June 2016
<b>3</b>	Ban on recirculation of banknotes	General Cashier's Directorate	120 days	<b>Article 8 of Decree Law 350/2001 converted into Law 409/2001, as replaced by Article 97 of Decree Law 1/2012, converted into Law 27/2012</b>  Bank of Italy Order of 22 June 2016
<b>4</b>	Sanction proceeding for infringement of rules on cash handling and of obligations to withdraw suspected counterfeit banknotes and consign them to the Bank of Italy	General Cashier's Directorate	240 days <sup>2</sup>	<b>Article 8 of Decree Law 350/2001 converted into Law 409/2001, as replaced by Article 97 of Decree Law 1/2012, converted into Law 27/2012</b>  Bank of Italy Order of 22 June 2016

<sup>2</sup> From the deadline for the submission of a written defense by the party on whom the enforcement proceeding has been imposed