REPORT FROM THE COMMISSION

TO THE ECONOMIC AND FINANCIAL COMMITTEE

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1. OBJECTIVE OF REGULATION (EU) No 1210/2010

In order to improve the protection of the euro against counterfeiting Regulation (EC) No 1338/2001 requires credit institutions and, within the limits of their payment activity, other payment service providers and any other institutions engaged in the processing and distribution to the public of notes and coins (hereinafter "institutions") to ensure that euro notes and coins which they have received and which they intend to put back into circulation are checked for authenticity and that counterfeits are detected.

For coins this obligation is further detailed in Regulation (EU) No 1210/2010 of the European Parliament and of the Council of 15 December 2010 concerning authentication of euro coins and handling of euro coins unfit for circulation (hereinafter "the Regulation"). The objective of the Regulation is to ensure effective and uniform authentication of euro coins throughout the euro area by providing binding rules for the implementation of common procedures for the authentication of euro coins in circulation as well as for implementation of control mechanism of the authentication procedures by the national authorities. An authentication procedure is designed to verify that euro coins are authentic and fit for circulation.

The Regulation stipulates that the authentication obligation shall be implemented by means of coin-processing machines or by trained personnel. Following the authentication procedure all suspected counterfeit coins and coins unfit for circulation are to be sent to the Coin National Analysis Centre or another authority designated by the Member State concerned. The Regulation sets out the testing requirements for the coin-processing machines, rules for handling coins unfit for circulation as well as control mechanisms to be put in place by Member States to make sure the institutions are fulfilling their authentication obligation.

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The European Technical and Scientific Centre (ETSC), established by Commission Decision 2005/37/EC, defines the Guidelines on implementation of Regulation (EU) No 1210/2010 (hereafter the "ETSC Guidelines") in accordance with Article 7 of the Regulation.

2. PURPOSE OF THE REPORT

The Commission, after having analysed the annual reports received from the Member States, shall present an annual report to the Economic and Financial Committee (EFC) on developments and results concerning authentication of euro coins and euro coins unfit for circulation according to Article 12(4) of the Regulation.

The Commission has presented its first report to the EFC covering the year 2012 in June 2014. This report is the second report the Commission presents to the EFC, which refers to the year 2013. Its main purpose is to assess whether the common authentication procedures have been properly implemented, whether the control mechanisms of the authentication procedures by the national authorities are effective and, finally, furnish an overall statistical overview based on the reports received from Member States.

3. REPORTS OF MEMBER STATES ON THEIR ACTIVITIES AS REGARDS AUTHENTICATION OF EURO COINS

Member States shall submit annually reports to the Commission on their activities as regards authentication of euro coins in line with Article 12(1) of the Regulation. The information provided shall include the number of controls carried out, and of coin-processing machines checked, the test results, the volume of coins processed by those machines, the number of suspected counterfeit coins analysed and the number of euro coins unfit for circulation reimbursed, as well as details of any derogations provided for in the Regulation.

The deadline for transmission of the annual reports by Member States is set out in the ETSC Guidelines for the 15th of February of the year following the one on which is reported.

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5 Only 5 euro area Member States submitted their reports within the deadline of 15.02.2014.
4. **ASSESSMENT OF THE REPORTS OF MEMBER STATES FOR THE YEAR 2013**

4.1. **Assessment criteria**

The main criteria concerning authentication of euro coins and euro coins unfit for circulation to be reported are set out in Article 12(1) of the Regulation. In order to coordinate the implementation of the authentication procedures, Article 7 of the Regulation designated the European Technical and Scientific Centre (ETSC) to define guidelines, including practical implementation provisions, related to controls, checks and auditing by Member States, after having consulted the counterfeit coin experts group (CCEG). On the basis of the ETSC Guidelines the Member States had to report on the following indicators⁶:

1. Total number of coins processed in 2013 for the three highest denomination;
2. Total number of on-the-spot controls carried out;
3. Total number of coin-processing machines checked;
4. Total volume of coins processed by coin-processing machines checked;
5. Total number of suspect counterfeit coins analysed;
6. Total number of unfit coins reimbursed.

4.2. **Assessment of the Reports**

All 17 euro area Member States were able to comply with the obligation to submit their annual report for the year 2013, which is an important improvement in comparison with the year 2012. A complete overview of all figures is provided in Annex II.

4.2.1. **Total number of coins processed in 2013 for the three highest denomination**

On the basis of Article 3 the institutions⁸ implement the authentication obligation by use of coin-processing machines included on the list of ETSC designed to verify that euro coins are authentic and fit for circulation.

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⁶ See Annex I.
⁷ Latvia joined the euro-area as the 18th Member State on 1 January 2014 and is thus not covered by this report.
⁸ Article 2(d) of Regulation 1210/2010 in conjunction with Article 6(1) of Regulation 1338/2001.
The total number of coins processed by coin-processing machines in 2013 for the three highest denominations (2 euro, 1 euro and 50 eurocent) amounts to 10 895 021 179. This amount represents 63.94% of the amount of coins in circulation.

4.2.2. **Total number of on-the-spot controls carried out**

Member States shall perform annual on-the-spot controls in institutions with a view to verifying, through detection tests, the proper functioning of a representative number of coin-processing machines used in accordance with Article 6 of the Regulation.

A total of 227 on-the-spot controls were carried out by Member States in 2013. The number of controls reported varied considerably between 1 and 59 controls per Member State. This could be explained by the size of the market and the way the market in a particular Member State is organised with respect to cash-processing. In some Member States the entire amount of coins is processed by a single cash-in-transit company and in others, for instance, by individual commercial banks. Four Member States (Italy, Luxembourg, Malta and Finland) have not reported any controls. These Member States were invited to improve their reporting in the framework of the presentation of the first report to the EFC in June 2014.

4.2.3. **Total number of coin-processing machines checked**

A total of 367 coin-processing machines has been checked and 76.02% of them demonstrated conformity with specifications. For the machines deemed non-compliant, Article 6(7) of the Regulation provides for corrective measures to be carried out.

4.2.4. **Total volume of coins processed by coin-processing machines checked**

Unless a notification for a derogation was received by the Commission as stipulated in Article 6(5) of the Regulation the Member States have the obligation according to Article 6(3) to check the coin-processing machines which have processed at least 25% of the total cumulated net volume of the three highest denominations of euro coins issued by that Member State from the introduction of euro coins until the end of 2012.

On the basis of the data extracted from the ECB database on the net issuance per Member State from the introduction of the euro until the end of 2012, the following Member States

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9 See Annex I.
10 Calculated on the basis of net issuance of 17 039 317 000 coins (Source: ECB Currency information system report of December 2013). It should be noted however that some coins might have been checked several times.
11 See Annex I.
12 The report was presented to the EFC on the 13th of June 2014.
13 See Annex I.
14 See Annex II.
complied with the criteria of 25% referred to in Article 6(3): Belgium, Estonia, Greece, Spain, France, Ireland, Cyprus, Malta, The Netherlands, Portugal and Slovenia\textsuperscript{15} (see Annex III). Germany and Slovakia applied the derogation referred to in Article 6(5) and complied with the lower threshold of 10%.

The total volume of coins processed by coin-processing machines which were checked by the designated national authorities amounts to 5\,737\,378\,767\textsuperscript{16}. This represents 52.66\% of the volume of coins processed in 2013.\textsuperscript{17}

\textbf{4.2.5. Total number of suspect counterfeit coins analysed}

The total number of suspect counterfeit coins analysed refers to all suspect coins sent to the Coin National Analysis Centres (CNACs) in individual Member States for analysis. The total number of suspect counterfeit coins analysed amounts to 742\,138\textsuperscript{18} coins. The total number of counterfeit coins detected in circulation amounts to 177\,600\textsuperscript{19} coins.

\textbf{4.2.6. Total number of unfit coins reimbursed}

Member States shall reimburse or replace euro coins that have become unfit due to long circulation or accident or that have been rejected during the authentication procedure for any other reason. Member States may refuse reimbursement of euro coins unfit for circulation which have been altered either deliberately or by a process that could be reasonably expected to have the effect of altering them, notwithstanding reimbursement of coins collected for charitable purposes, such as "fountain coins".

The total number of unfit coins reimbursed amounts to 10\,135\,922\textsuperscript{20} coins.

\textbf{5. Conclusions}

The current report, referring to the year 2013, shows the following tendencies in comparison with the Commission’s report to the EFC for the year 2012.

- An increasing number of coins is being authenticated (in 2013 over 10 billion coins were authenticated\textsuperscript{21});

\textsuperscript{15} Austria did not comply. Since Italy, Luxembourg and Finland did not report any data the compliance with the 25\% referred to in Article 6(3) could not be assessed.

\textsuperscript{16} See Annex I.

\textsuperscript{17} Based on the figure under point 4.2.1.

\textsuperscript{18} See Annex I.

\textsuperscript{19} Source: ETSC annual report "The protection of the euro coins in 2013".

\textsuperscript{20} See Annex I.

\textsuperscript{21} See Annex IV – Chart 1.
• The number of coins processed for the three highest denominations increased in 2013 by 6\%^{22};
• The number of controls carried out by the Member States increased as well as the number of coin-processing machines checked\(^{23}\);
• The number of the machines deemed to be compliant (successfully passing the detection test as stipulated in Article 4(1)) has increased; hence, the number of the non-compliant machines has decreased\(^{24}\);
• The number of analysed suspect counterfeits has increased whereas the number of unfit coins reimbursed has decreased in 2013\(^{25}\);
• 13 out of 17 Member States of the euro area carry out controls of the correct implementation of the authentication obligation by the institutions referred to in Article 6 of Regulation (EC) 1338/2001.

It can be concluded that the authentication procedure in the institutions seems to be in place in the majority of euro area Member States. This constitutes a key element to achieve an effective and uniform authentication of euro coins throughout the euro area.

However, based on the experience of the Commission’s reports for the years 2012 and 2013, a further fine-tuning of the timely reporting obligation by Member States is necessary to allow the Commission to draw up a comprehensive picture of the authentication procedures put in place in Member States. The reports from Member States do not reach the desired level of completeness and homogeneity necessary for a detailed assessment by the Commission. In follow up of the meeting of the EFC in June 2014 on the Commission’s report for 2012, a further harmonisation and improvement of the reporting will be discussed in the framework of the existing experts group (Counterfeit Coins Experts Group) and will be detailed in the ETSC Guidelines in view of future reports.

\(^{22}\) However there was a decrease in the volume of coins processed by the coin processing machines checked by the Member States. This could be explained because the Member States apply the rotation principle when deciding which coin processing machines should be checked in conformity with Article 6(3).
\(^{23}\) See Annex IV – Chart 2.
\(^{24}\) See Annex IV – Chart 2.
\(^{25}\) See Annex IV – Chart 3.