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REPORT FROM THE COMMISSION

of 14.10.2015

TO THE ECONOMIC AND FINANCIAL COMMITTEE

under Article 12(4) of 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

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under Article 12(4) of 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 circulation¹

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

In order to improve the protection of the euro against counterfeiting Council Regulation (EC) No 1338/2001² 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.

The European Technical and Scientific Centre (ETSC), established by Commission Decision 2005/37/EC³, 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.

¹ OJ L 339, 22.12.2010, p. 1.

² Council Regulation (EC) No 1338/2001 laying down measures for the protection of the euro against counterfeiting (OJ L 181, 4.7.2001, p. 6).

³ Commission Decision of 29 October 2004 establishing the European Technical and Scientific Centre (ETSC) and providing for coordination of technical actions to protect euro coins against counterfeiting (OJ L 19, 21.1.2005, p. 73).

The Commission has presented two reports to the EFC covering the years 2012⁴ and 2013⁵. This report is the third report that the Commission is presenting to the EFC and it refers to the year 2014. Its main purpose is to monitor the correct implementation of the common authentication procedures, to assess whether the control mechanisms of the authentication procedures by the national authorities are effective and, finally, to furnish a 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 are required to 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 should 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 in the ETSC Guidelines as 15 February of the year following the reporting year.

4. ASSESSMENT OF THE REPORTS OF MEMBER STATES FOR THE YEAR 2014

4.1. Assessment criteria

The main reporting criteria concerning authentication of euro coins and euro coins unfit for circulation 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 authorised 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 were required to report on the following indicators⁶:

1. Total number of coins processed in 2014 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; and
6. Total number of unfit coins reimbursed.

⁴ COM(2014) 277 final.

⁵ C(2014) 6536 final.

⁶ See Annex I.

4.2. Assessment of the Reports

All 18⁷ euro-area Member States were able to comply with the obligation to submit their annual report for the year 2014. A complete overview of all figures is provided in Annex II.

4.2.1. Total number of coins processed in 2014 for the three highest denominations

On the basis of Article 3, the institutions⁸ implement the authentication obligation by using coin-processing machines included on the list of ETSC designed to verify that euro coins are authentic and fit for circulation. The total number of coins processed by coin-processing machines in 2014 for the three highest denominations (2 euro, 1 euro and 50 eurocent) amounts to **12 894 823 280**⁹. This amount represents **73.6%** of the amount of coins issued in 2014¹⁰.

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

Member States are required to 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 **259**¹¹ on-the-spot controls were carried out by Member States in 2014. The number of controls reported varied considerably between **1** and **48** controls per Member State. This may 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. Two Member States (Italy and Luxembourg) did not report that they had carried out any controls; this is an improvement in comparison with the year 2013 when 4 Member States did not report any controls. Reminders were also sent to the competent national authorities of both Member States¹² to fully implement the on-the-spot controls.

4.2.3. Total number of coin-processing machines checked

A total of **388**¹³ coin-processing machines has been checked and **78.60%**¹⁴ 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 derogation¹⁵ was received by the Commission, as stipulated in Article 6(5) of the Regulation, 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

⁷ Latvia reported for the first time to the Commission since it adopted the euro on 1 January 2014. Lithuania did not report for the year 2014, since it adopted the euro only on 1 January 2015.

⁸ Institutions are defined in Article 2(d) of Regulation (EU) No 1210/2010 in conjunction with Article 6(1) of the Council Regulation (EC) No 1338/2001.

⁹ See Annex I.

¹⁰ Calculated on the basis of net issuance of 17 517 682 132 coins (Source: ECB Currency information system report of December 2014). It should be noted however that some coins might have been checked several times.

¹¹ See Annex I.

¹² Ares(2015)2405559 and Ares(2015)2405809 of 9 June 2015 for Italy and Luxembourg, respectively.

¹³ See Annex I.

¹⁴ See Annex II.

¹⁵ As stipulated in Article 6(3) of the Regulation, the derogation is applicable for a transitional period until 31 December of 2014. The Commission will monitor the compliance of the Member States' reports with Article 6(3) of the Regulation in the next report to the EFC, referring to the year of 2015.

cumulated net volume of the three highest denominations of euro coins issued by that Member State between the introduction of euro coins and the end of 2013.

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 2013, the following Member States complied with the criteria of 25% referred to in Article 6(3): Belgium, Estonia, Greece, Spain, France, Ireland, Cyprus, Malta, the Netherlands, Portugal and Slovenia¹⁶ (see Annex III).

Germany, Slovakia and Finland 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 **5 942 444 047**¹⁷. This represents **46.08%** of the volume of coins processed in 2014¹⁸.

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 1 252 432¹⁹ coins. The total number of counterfeit coins detected in circulation amounts to **192 195** coins²⁰.

4.2.6. Total number of unfit coins reimbursed

Member States are required to 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 **8 573 762**²¹ coins.

5. CONCLUSIONS

The current report for the year 2014 shows the following tendencies in comparison with the Commission's report to the EFC for the year 2013.

- An increasing number of coins is being authenticated (in 2014 over 12 billion coins were authenticated²²);
- The number of coins processed for the three highest denominations has increased in 2014 by 18.36%²³;

¹⁶ Austria, Italy and Luxembourg did not comply.

¹⁷ See Annex I.

¹⁸ Based on the figure under point 4.2.1.

¹⁹ See Annex I.

²⁰ Source: ETSC annual report "The protection of the euro coins in 2014".

²¹ See Annex I.

²² See Annex IV – Chart 1.

²³ Variations on the yearly basis can be observed which 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).

- The number of controls carried out by the Member States has increased as well as the number of coin-processing machines checked²⁴;
- The number of 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 decreased²⁵;
- The number of analysed suspect counterfeits has increased whereas the number of reimbursed counterfeits has decreased²⁶;
- 16 out of 18 Member States of the euro area have carried out controls of the correct implementation of the authentication obligation by the institutions referred to in Article 6 of the Council Regulation (EC) No 1338/2001.

It can be concluded that the authentication procedure in the institutions works in the majority of euro area Member States. The objectives of the Regulation to achieve an effective and uniform authentication of euro coins throughout the euro area are progressively achieved.

Based on the experience of the Commission's reports for the years of 2012 and 2013, the process of implementation of the Regulation has been visibly improved at the level of both the credit institutions and the Member States. The timeliness and the homogeneity of the Member States' reports have been improved but some progress can still be made.

With reference to the evaluation of a possible modification²⁷ of the Regulation, the Commission reports that there is a need to facilitate the implementation of the Regulation rather than to modify it.

The Commission, therefore, plans to update the ETSC Guidelines to facilitate the implementation of the Regulation. The update of the ETSC Guidelines and a further improvement of the quality of reporting by the Member States will be discussed in the framework of the existing experts' group (CCEG).

²⁴ See Annex IV – Chart 2.

²⁵ See Annex IV – Chart 2.

²⁶ See Annex IV – Chart 3.

²⁷ Report from the Commission to the European Parliament and to the Council, as stipulated in Article 12(5) of the Regulation - COM(2014) 551 final.