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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**under Article 12(5) 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
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REPORT FROM THE COMMISSION
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under Article 12(5) 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. INTRODUCTION

The Commission shall present a report to the European Parliament and to the Council by 30 June 2014 according to Article 12(5) 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 (hereinafter the Regulation).

This report contains an overview of the assessment of the implementation of the provisions of the Regulation based on annual reports submitted by the Member States in order to evaluate the “operation and effects” of the Regulation.

2. OBJECTIVE OF THE REGULATION (EU) No 1210/2010

2.1 General

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, as well as 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they intend to put back into circulation are checked for authenticity, and that counterfeits which they detect are withdrawn from circulation.

¹OJ L339, 22.12.2010, p. 5.

²OJ L 181, 4.7.2001, p. 6.

For coins this obligation is further detailed in Regulation (EU) No 1210/2010³. 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 and for the implementation of control mechanisms of the authentication procedures by the national authorities. An authentication procedure is designed to verify that euro coins are genuine 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 submitted to the Coin National Analysis Centre (CNAC)⁴ 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 ensure the institutions are fulfilling their authentication obligation.

Furthermore, the Regulation contains rules on the obligation to withdraw unfit coins from circulation.

The European Technical and Scientific Centre (ETSC), established by Commission Decision 2005/37/EC⁵, defines the Guidelines on implementation of the Regulation (hereinafter the "ETSC Guidelines"), in order to ensure a uniform technical implementation in line with Article 7 of the Regulation.

2.2 Reports under Regulation (EU) 1210/2010

Member States shall submit annually reports to the Commission on their activities as regards authentication of euro coins in line with Article 12(1). The information provided in these reports shall include the numbers of controls carried out and of coin-processing machines checked by Member States, 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 implemented by Member States under the Regulation.

³On the other hand for euro banknotes it is further detailed in the Decision of the European Central Bank ECB/2010/14, OJ L 267, 9.10.2010, p.1.

⁴According to Article 5(1) of Council Regulation (EC) No 1338/2001, CNACs are established or designated by the Member States.

⁵Commission 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 shall present an annual report to the **Economic and Financial Committee** (EFC) under Article 12(4) on the developments and results concerning the authentication of euro coins and euro coins unfit for circulation based on the analysis of the annual reports submitted by the Member States. In June 2014 the Commission (OLAF) presented its first report to the EFC for the year 2012⁶.

This report is presented to the European Parliament and to the Council under Article 12(5), focusing on the operation and effects of the Regulation, accompanied, if appropriate, by legislative proposals.

3. OPERATION AND EFFECTS OF REGULATION (EU) NO 1210/2010

3.1 Assessment method

The Commission (OLAF) has based this report on the following sources of information:

- The annual reports received from the Member States for the years 2012 and 2013;
- The annual Commission's report presented to the EFC referring to the year 2012;
- A questionnaire sent to all Member States in order to clarify the level of implementation of the Regulation⁷.

The key provisions of the Regulation on authentication have been applicable as from 1 January 2012. Given the limited experience with the implementation of the Regulation, the Commission considers this report as a preliminary assessment in the framework of the annual reports and the questionnaire.

The main aspects of the assessment are summarized in the following section.

3.2 Analysis of Member States' contributions

The majority of the Member States has implemented the Regulation since its entry into force in January 2012 although Finland, Luxembourg and Ireland are still in the process of fully implementing the Regulation. Italy has indicated that only Chapter III of the Regulation has been effectively implemented, whereas a national decree is in preparation enabling the full implementation of the Regulation.

⁶COM (2014) 277.

⁷Annex I.

Based on the Commission's report to the EFC for the year 2012 and on the contributions from the Member States for the year 2013, the following tendencies may be observed.

An increasing number of coins is being authenticated (in 2013 over 10 billion coins were authenticated⁸). The number of coins processed for the three highest denominations increased in 2013 by 6%⁹. The number of controls carried out by the Member States increased as well as the number of coin-processing machines checked¹⁰. In addition, the number of the machines deemed to be compliant (successfully passing the detection test as stipulated in Article 4(1)) has also increased; hence, the number of the non-compliant machines has decreased.

3.2.1 Article 3 on authentication of euro coins

Article 3 contains the basic obligation of the “institutions” to authenticate either by means of coin-processing machines or trained personnel.

Most of the Member States reported that the “institutions” perform the authentication process mostly using coin-processing machines, and to a lesser extent, trained personnel. In Slovakia, the Netherlands, Portugal, Malta, Ireland and Austria this process is performed exclusively by coin-processing machines¹¹. The majority of the Member States confirmed that suspected counterfeit coins are sent to the CNACs.

3.2.2 Article 4 and 5 on testing requirements and adjustment of coin-processing machines

Article 4 contains the requirements for testing of coin-processing machines used for authentication.

The ETSC¹² plays an important role in securing that only machines capable of detecting euro counterfeits are eligible to be used in the euro area for authentication.

The ETSC publishes a list of machines passing the detection test on the Commission's (OLAF) website referred to in Article 5(2) of the Regulation. In all Member States - with the

⁸Annex II – Chart 1.

⁹However there was a decrease in the volume of coins processed by the coin processing machines checked by the Member States which can be explained by applying the rotation principle when deciding which coin-processing machines should be checked as stipulated in Article 6(3).

¹⁰ Annex II – Chart 2.

¹¹Based on the Member States' replies to the questionnaire. Italy, France and Finland did not provide any feedback to this particular point.

¹²The ETSC is established within the Commission in Brussels, attached to OLAF (Article 1 of the Commission Decision 2005/37/EC, OJ L 19, 21/01/2005, p. 73).

exception of Greece¹³ - the machines used by the “institutions” are listed on the Commission’s (OLAF) website.

According to Article 5 the testing of coin-processing machines must be carried out by designated national authorities.

Most of the Member States have designated CNACs to perform detection tests. In order to detect new classes of counterfeits the machines have to be adjusted. The test pack used to maintain the detection capabilities of the coin-processing machines is therefore reviewed on a regular basis by the ETSC in cooperation with the relevant stakeholders.

3.2.3 Article 6 on controls by Member States

Article 6 requires annual on-the-spot-controls by the Member States in the “institutions” and specifies how they should be conducted.

The majority of Member States reported that the on-the-spot controls are performed in conformity with Article 6 of the Regulation whilst Italy, Luxembourg, Greece, Malta and Finland¹⁴ have reported to have not yet carried out any controls. On the basis of the information received, the percentage of coin-processing machines to be checked, as specified in Article 6(3), seems to be feasible for the Member States. Based on the on-the-spot-controls, most of the Member States have replied that one of the main reasons for non-compliance with the Regulation is a failure of the detection test¹⁵. For example, it has occurred that known types of counterfeit euro coins and euro coins unfit for circulation are not rejected by coin-processing machines. Other reasons for non-compliance cited by Member States include a lack of internal control procedures¹⁶ and trained personnel¹⁷.

3.2.4 Article 8 on withdrawal and reimbursement of euro coins unfit for circulation

Article 8 of the Regulation requires that euro coins unfit for circulation are withdrawn from circulation and destroyed by physical and permanent deformation.

All Member States reported that detected unfit coins are withdrawn from circulation in conformity with Article 8(1) and are reimbursed in line with Article 8(2). A majority of

¹³Greece reported that none of the machines in use are listed on the Commission’s (OLAF) website since a specific derogation has been granted in line with Article 4(2).

¹⁴Finland did not report for the year 2012 as Article 12(1) stipulates.

¹⁵DE, CY, EE, NL, PT, BE, FR and IE.

¹⁶NL, FR, SP and IE.

¹⁷CY.

Member States, with the exception of Slovenia and Estonia¹⁸, has indicated that the coins unfit for circulation are destroyed.

The Commission requested the Mint Directors' Working Group (MDWG)¹⁹ to conduct a study on best practices in relation to demonetisation of unfit coins²⁰ in order to assist Member States with an efficient enforcement of the provisions of the Regulation on the destruction of the withdrawn unfit coins.

3.2.5 Article 9 on handling fees and Article 10 on packaging of euro coins unfit for circulation

Article 9 of the Regulation provides for a flexible system of handling fees related to the reimbursement and replacement of euro coins unfit for circulation.

A majority of Member States have no handling fees for the reimbursement or replacement of unfit coins, while others choose to deduct a handling fee from reimbursement of unfit coins in line with Article 9(1)²¹.

Article 10(1) of the Regulation stipulates the packaging requirements of coins unfit for circulation submitted for reimbursement or replacement.

Most of the Member States report that standardised packaging requirements are used when submitting coins unfit for circulation for reimbursement²². Some Member States reported to use the derogation referred to in Article 10(2) applying different packaging as per national rules²³.

3.2.6 Article 11 on checks of euro coins unfit for circulation

Article 11 provides for guidelines related to checks of submitted euro coins unfit for circulation and gives the possibility to Member States to adopt further measures.

¹⁸Slovenia and Estonia replied to the questionnaire that they keep the number of coins unfit for circulation. This is done because the number of coins unfit for circulation in both Member States is relatively small.

¹⁹The Mint Directors Working Group (MDWG) is a non-formal gathering of the Mint Masters from the EU Member States which works on a mandate of the Euro Coin Sub-Committee (the latter belonging to the Economic and Financial Committee).

²⁰The results of the study were endorsed by MDWG including a recommendation of best practices identified.

²¹CY, SK, HR, BE, LU, MT, IE and AT apply a handling fee which is deducted from the reimbursement of unfit coins.

²²With the exception of FI, DK, SK, EE and FR.

²³DE, CY, NL and SP have mentioned that there are derogations in place as for Article 10(2) of the Regulation.

Most of the Member States have mentioned that a national procedure for checks of euro coins unfit for circulation in line with Article 11(1) of the Regulation is in place²⁴. However, few Member States have adopted further measures for the submission of coins as referred to in Article 11(3)²⁵, so as to safeguard the health of the employees of the “institutions” involved in checking unfit coins.

3.2.7 Article 12 on reporting, communication and evaluation

Article 12 contains rules on reporting by the “institutions”, by the Member States and by the Commission.

The Member States do not fully comply with their reporting obligation as stipulated in Article 12(1) of the Regulation and in the “ETSC Guidelines”.

The Commission concluded in its report to the EFC for the year 2012 that a further fine-tuning of the 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 have not yet reached the desired level of timeliness, completeness or homogeneity.

The majority of Member States reported, with the exception of Estonia and Italy²⁶ that the “institutions” comply in a satisfactory way with the requirement of Article 12(2). A majority of Member States reported their compliance with the requirement of Article 12(3) to make available the information concerning the authorities designated for reimbursement or replacement of euro coins on websites or in other appropriate publications²⁷.

3.2.8 Article 13 on penalties

Article 13 requires Member States to lay down rules on effective, proportionate and dissuasive measures necessary for the implementation of the Regulation.

²⁴DK, NL, FR, LU and MT have mentioned that there is not a procedure for checks of euro coins unfit for circulation.

²⁵DE, BE, IT and LU.

²⁶In Italy a national decree is under preparation which will establish binding rules for reporting and communication for the “institutions”.

²⁷With the exception of EE, LV and FI.

A majority of Member States have indicated that administrative sanctions have been implemented for infringements of the Regulation including fines or other administrative measures, such as withdrawal of licences to process coins²⁸.

4. CONCLUSION

4.1 General

Based on the information reported by the Member States the authentication procedure in the “institutions” is in place in the majority of the euro area Member States. The Designated National Authorities as referred to in Article 2(c) and Article 3(2) are identified in each Member State. Coin-processing machines play an essential role in the authentication process and their adjustment is carried out as the Regulation stipulates. Most of the Member States of the euro area carry out controls on the correct implementation of the authentication obligation by the “institutions”. All Member States of the euro area comply with the requirement to withdraw coins unfit for circulation. Some improvements could be considered in relation to the treatment of unfit coins withdrawn from circulation by Member States.

4.2 Evaluation of a possible modification of Regulation (EU) 1210/2010

Given that a limited level of experience has been gained so far with the implementation of the Regulation, it is too early to envisage a legislative proposal at this stage²⁹.

A further fine-tuning of the 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.

Therefore, the Commission (OLAF) will need to further assess the appropriateness of a possible modification of the Regulation. Some Member States, however, have already identified some areas for improvement which are summarised below³⁰:

Article 3

²⁸With the exception of FI, DK, EE, IE and LU.

²⁹The report may be accompanied, if appropriate, by legislative proposals implementing in further detail, or amending, the Regulation, in particular with respect to Articles 6 and 8 as stipulated in Article 12(5) of the Regulation.

³⁰These suggestions were made in the framework of the questionnaire submitted by the CNACs.

It has been suggested to modify Article 3(1) of the Regulation and to introduce an extra category of machines which could be used to comply with the authentication obligation in addition to Article 3(1a) and (1b)³¹.

Article 6

It has been suggested that the number of coins processed by national authorities in the premises of Central Banks, which are currently not considered “institutions”, should be taken into account when assessing the compliance with the 25% referred to in Article 6(3). It has also been suggested that the annual compliance should be linked to the number of institutions checked rather than the number of coin-processing machines checked³². On the other hand, it has been suggested to have less detailed rules for planning and conducting annual on-the-spot controls.

Article 8

It has been suggested to look into a further alignment of the conditions for reimbursement of unfit coins as stipulated in Article 8(2) of the Regulation given the diverging national practices.

4.3 Way forward

Taking into account the above, the Commission (OLAF) will carry out a further assessment. Based on its evaluation, it will discuss the way forward with its stakeholders. Options available could include a modification of the Regulation or a clarification of the “ETSC Guidelines”. This assessment will be based on discussions, for instance, in the framework of the Commission’s expert group (CCEG³³). The Commission will use future annual reports under Article 12(4) to communicate progress made.

³¹The suggested text is the following: “(c) with coin-changing and coin-pay-in machines which withdraw counterfeited, suspected and unfit coins and do not give them back to the user”.

³²The suggested text is the following “the number of coin-processing sites to be checked annually in each Member State shall be such that the volume of euro coins processed mechanically in those sites during that year representing at least 25 % of the total cumulated net volume of coins issued by that Member State from the introduction of euro coins until the end of the previous year; the volume of euro coins processed used to calculate the annual compliance of 25% may be the real data from the previous year, or an estimation based on the data declared by institutions for the first half of the year”.

³³The Counterfeit Coin Experts Group (CCEG) usually meets twice a year to discuss technical issues related to counterfeiting of euro coins. Other items of the agenda concern the euro coin counterfeiting situation and the activities of the Coin National Analysis Centres (CNACs) in the Member States, the similarity of medals or tokens to euro coins and the implementation of coin authentication procedures.