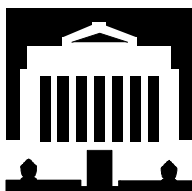


Bank of Canada



Information with respect to the prevalence of counterfeiting and its impact on direct victims and society

| | |
|--|---|
| 1. The Bank of Canada’s role in the economic welfare of Canada..... | 1 |
| 2. The Bank of Canada’s responsibility for bank notes | 1 |
| 3. The increasing prevalence of counterfeiting – 1250% growth in 14 years..... | 2 |
| 4. The impact of counterfeiting on direct victims..... | 3 |
| a. No reimbursement..... | 3 |
| b. Counterfeiting losses can substantially impact individuals and businesses | 4 |
| 5. The impact of counterfeiting on society at large | 4 |
| a. Bank notes are vital to the economy – almost 100% increase in 14 years | 4 |
| b. The effect of the loss of confidence by some businesses in bank notes | 4 |
| c. Ultimately we all pay for the increased costs to the Bank of Canada..... | 5 |
| d. Financial losses from increased law enforcement and business costs..... | 6 |
| 6. For further information or questions please contact: | 6 |

Bank of Canada

Information with respect to the prevalence of counterfeiting and its impact on direct victims and society

1. The Bank of Canada's role in the economic welfare of Canada

- The Bank of Canada is Canada's central bank. The Bank is a Crown corporation that operates with considerable autonomy.
- One of the Bank's fundamental purposes, as set forth in the preamble to the *Bank of Canada Act*, is "... to promote the economic and financial welfare of Canada."
- The Bank of Canada promotes the economic and financial welfare of Canada through its activities in four main areas: monetary policy, currency, financial system stability, and funds management.
- The Bank is responsible for maintaining a stable financial system, low and stable inflation, and the efficient management of government funds and public debt.
- The Bank of Canada is not a commercial bank and does not provide regular banking services to the public.

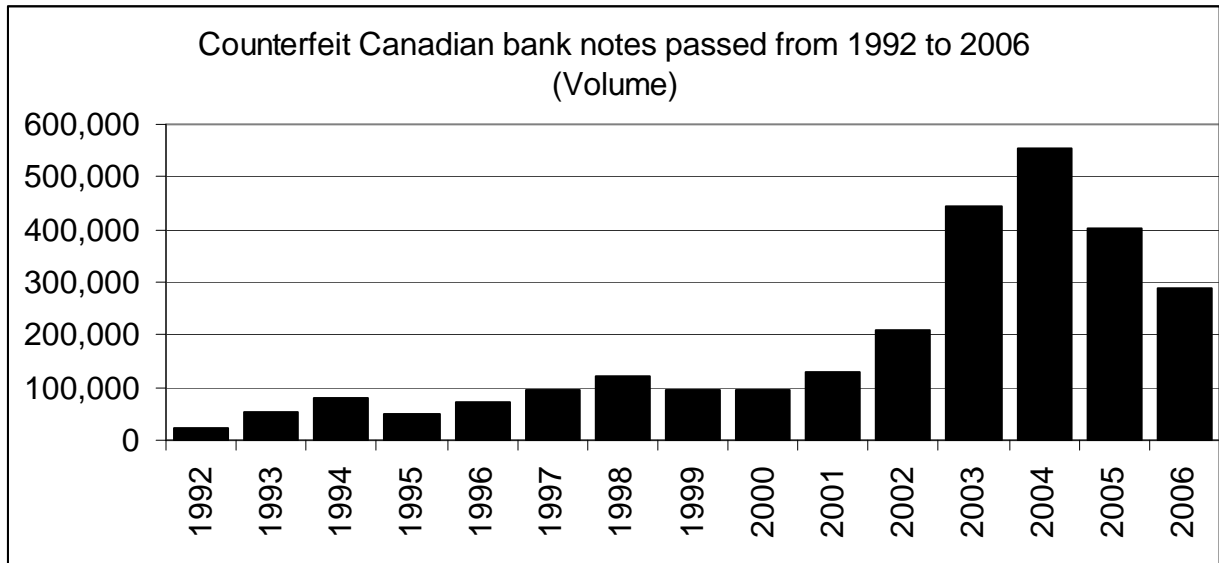
2. The Bank of Canada's responsibility for bank notes

The Bank of Canada promotes the economic and financial welfare of Canada by

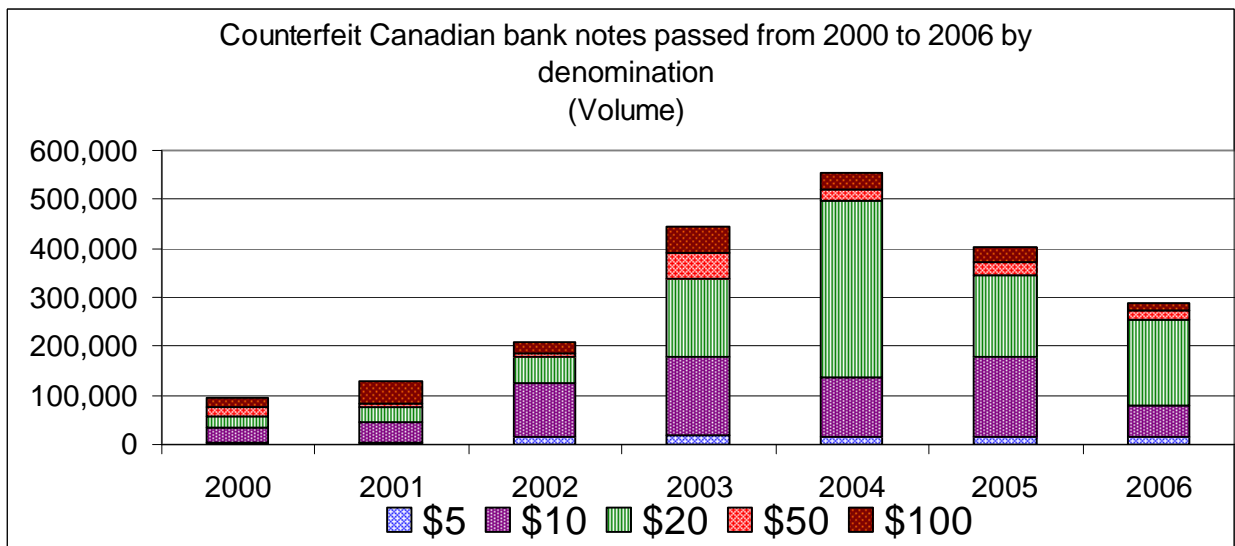
- Conducting monetary policy to foster confidence in the value of money. The goal of monetary policy is to contribute to solid economic performance and raise living standards for Canadians by keeping inflation low, stable, and predictable. The Bank of Canada influences the economy by regulating the amount of money in circulation; and
- Acting as the only body in Canada that can lawfully issue bank notes. The Bank is responsible for issuing quality bank notes that are readily accepted and secure against counterfeiting. The Bank is responsible for designing the notes (including their anti-counterfeiting features), distributing new notes, and replacing old notes. The Bank of Canada also ensures that notes are authentic and there is a supply equal to public demand.

3. The increasing prevalence of counterfeiting – 1250% growth in 14 years

- As a result of the computer revolution, counterfeiting no longer requires large stationary presses operated by persons skilled in printing. Most counterfeiting now is done with inkjet printers and colour copiers.
- The charts set out below have been drawn from figures compiled by the RCMP’s Bureau for Counterfeit and Documents Examination, which receives all counterfeit notes seized in Canada, and the Bank’s own figures. These charts illustrate that the number of counterfeit notes passed annually in Canada has increased just over 1,250% from 1992 to 2006.



- The following chart illustrates the number of counterfeit notes passed by denomination from 2000 to 2006.



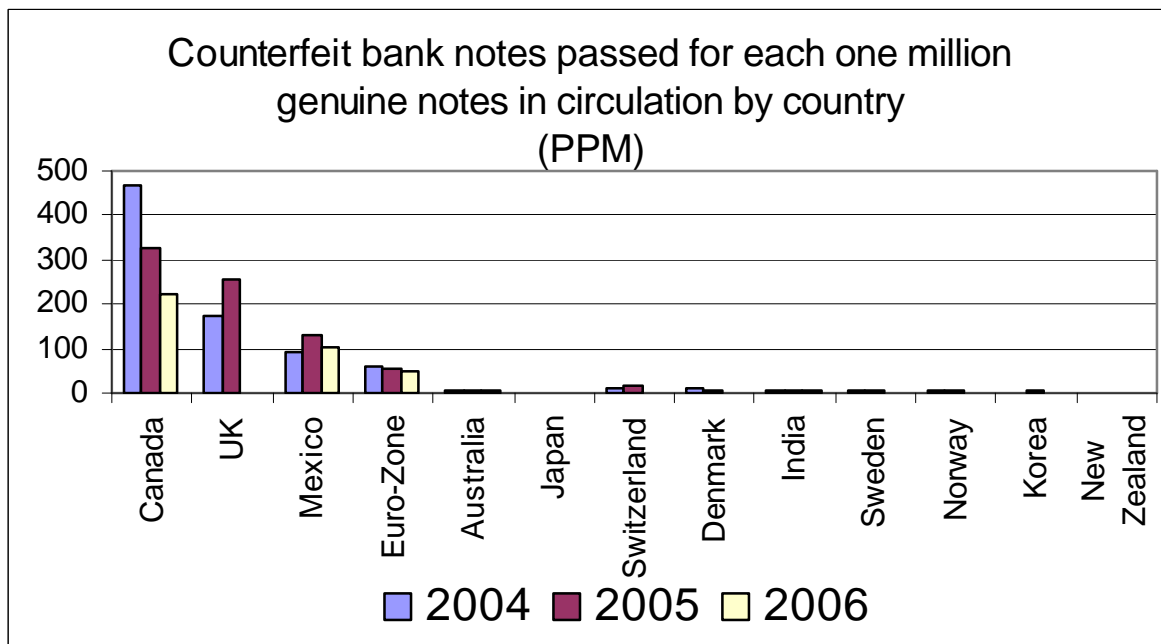
The growth in counterfeiting can also be illustrated in the following way:

- 1992 – 21,200 counterfeits passed
- 2006 – 287,088 counterfeits passed (increase of 1250% from 1992)
- 1992 - \$575 thousand in counterfeits passed
- 2006 - \$6.7 million in counterfeits passed (increase of 1065% from 1992)

By comparison genuine bank notes in circulation increased 38% from 1992 to 2006 and

the population in Canada increased 14% from 1992 to 2006 (Source: Statistics Canada).

- While the drop in counterfeiting rates from 2004 to 2006 has been very encouraging, the counterfeiting of Canadian bank notes remains very high by international standards. The following chart illustrates how very few countries have experienced counterfeiting levels which even come close to those experienced in Canada between 2004 to 2006.



*The above chart was compiled from information made publicly available by the central banks of various countries. The information reported varies in the calculation of fiscal years and is therefore not directly comparable in many cases.

4. The impact of counterfeiting on direct victims

a. No reimbursement

- Victims of credit card fraud are usually reimbursed by the credit card issuer if they have observed the card issuer's rules of use.



- Victims of counterfeit bank-notes are not reimbursed by the Bank.
- Under the *Bank Act*, the Bank of Canada has a legal obligation to honour genuine notes. It has no legal obligation to honour counterfeits.
- The Bank of Canada, like all other central banks in the world, has concluded that reimbursement would act as an incentive that would inevitably lead to increased counterfeiting activity.

b. Counterfeiting losses can substantially impact individuals and businesses

- The impact of counterfeiting on individuals of limited means or small businesses can be substantial.
- Even larger businesses with low margins – such as grocery stores that operate on 1-2% margins – can be severely impacted. A grocery store may have to sell \$5,000 to \$10,000 worth of goods to recover the loss of a single counterfeit \$100 bank note.

5. The impact of counterfeiting on society at large

a. Bank notes are vital to the economy – almost 100% increase in 14 years

- The growth in the number of bank notes in circulation demonstrate that they remain vital to the Canadian economy.
- 1992 - \$22 billion in circulation
2006 - \$43.5 billion
- Counterfeiting undermines confidence in Canadian bank notes that Canada must maintain.

As Reilly, J. stated in *R. v. Haldane*, [2001] O.J. No. 5161 (Sup. Ct.) at paragraph 17:

Counterfeit money constitutes a very serious threat to the community, from the economy of the community to the economy of the country, particularly now when it can be produced relatively easily, although the government does try to keep one step ahead.

b. The effect of the loss of confidence by some businesses in bank notes

- In July of 2001 one operation in Windsor, Ontario put approximately 63,000 counterfeit \$100 bills into circulation.



- Although a substantial amount, it was still very small when compared to the 169,000,000 genuine \$100 notes in circulation. Only about 4 bills in 10,000 would have been fake.
- However, the potential for loss was perceived as substantial by businesses. As a result, shortly after the Windsor case hit the media, 15% of retailers in the Windsor-Toronto-Montreal corridor posted signs refusing to accept \$100 bills.
- Other retailers soon posted similar signs across Canada.
- Many retailers including grocery chains, coffee shops, fast food restaurants and video stores still refuse to accept \$100 bills 5 years later.
- 5% of retailers currently refuse to accept one or more bank notes.

c. Ultimately we all pay for the increased costs to the Bank of Canada

- The Bank of Canada's earnings from bank notes are remitted to the government of Canada.
- Therefore, we all ultimately pay because the Bank remits less earnings due to its increased costs.
- The Bank has devoted substantial resources to help combat counterfeiting by
 - enhancing the security features in new bank notes
 - expanding procedures to detect and remove more counterfeit notes from circulation
 - monitoring and analyzing counterfeiting activity
 - expanding programs to teach businesses, the public and law enforcement how to detect counterfeit currency, and
 - developing initiatives to support law enforcement's efforts to deter counterfeiting.
- The Bank has spent close to \$29.2 million from 1997 to 2006 to develop and issue the new *Canadian Journey* series bank notes. In addition, these new notes will cost 40% more to produce – 9 cents a bill as opposed to 6.5 cents.
- The increased security costs represent only a portion of the total increased costs from counterfeiting. The Bank's spending for all

the costs related to the currency function
– increased communications, education and training, and so forth –
have

increased from \$66 million in 2001 to \$123 million in 2006 when
four new denominations were issued.

d. Financial losses from increased law enforcement and business costs

- Counterfeiting also has substantial financial impact on law enforcement and businesses who must devote resources to train their staff to combat counterfeiting.
- One major police force, for example, devotes 4 full time officers to collect counterfeit notes and other evidence.

6. For further information or questions please contact:

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