

CURRENCY

The Bank of Canada is responsible for supplying Canadians with bank notes they can use with confidence. The past year was the last of the Bank's 2003–06 medium-term plan, which focused on increasing the intrinsic security of bank notes, building awareness of new security features, and promoting counterfeiting deterrence by law-enforcement agencies and the justice system.

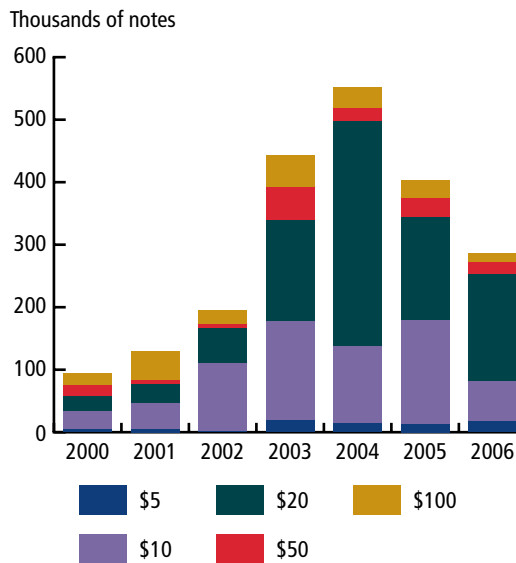
The Bank has made significant progress on these three fronts: it launched the new *Canadian Journey* series notes with state-of-the-art security features, built partnerships with the retail industry, and raised awareness in the law-enforcement and judicial communities of the seriousness of counterfeiting as a crime. As a result of these efforts, counterfeiting has fallen significantly in the past two years. As part of its new 2007–09 medium-term plan, the Bank is targeting a further reduction in counterfeiting. It will develop a new series of bank notes that will be even more difficult to replicate. It will also work to increase note verification by retailers, further counterfeit deterrence, and improve the efficiency and effectiveness of the note-distribution system.

Getting Results: Incidence of Counterfeiting

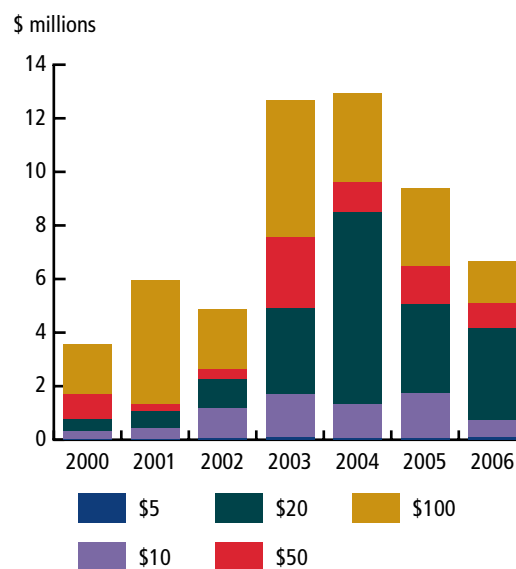
For the second year in a row, the *value* and *number* of counterfeit notes detected in circulation fell significantly, to \$6.7 million (287,088 notes) in 2006, from \$9.4 million (402,568 notes) in 2005 and \$12.9 million (552,700 notes) in 2004. The decline in counterfeiting primarily reflects the issuance of the more secure *Canadian Journey* series notes and the success of law-enforcement agencies in dismantling a number of counterfeiting operations. As well, the courts have become less lenient on counterfeiting as a crime, and substantial progress has been made in improving retailers' verification practices. In its new

medium-term plan, the Bank aims to reduce counterfeiting to fewer than 100 detected counterfeit notes per million notes in circulation by 2009, from 221 in 2006 and 326 in 2005.

Number of Counterfeit Bank Notes Found in Circulation



Value of Counterfeit Bank Notes Found in Circulation



Enhancing Bank Note Security

As part of its strategy to supply Canadians with secure bank notes, the Bank issued an upgraded *Canadian Journey* series \$5 note on 15 November 2006. With this new \$5 note, all *Canadian Journey* series notes now carry the security features introduced in 2004, including a metallic holographic stripe, a watermark portrait, a windowed colour-shifting thread woven into the paper, and a see-through number. The Bank continues to recommend checking more than one security feature.

In 2006, the Bank applied its research and development efforts to the next generation of bank notes and mapped out an ambitious plan to begin issuing a new note series with significantly improved security features by 2011 at the latest. Work has begun on developing and testing generic bank note designs and on simulating the performance of bank notes in circulation.

Counterfeiting is a threat to currencies around the world, and it demands a coordinated international response. The Bank is actively involved in a number of initiatives with other central banks, the security industry, and equipment manufacturers. The Bank is also a member of the Central Bank Counterfeiting Deterrence Group. This group of 27 central banks is deploying counterfeit-deterrence systems and identifying future international threats and possible responses.

The Art and Design of Canadian Bank Notes

Bank notes are the most tangible connection between the central bank and the public it serves. A bank note is a medium of exchange, a cultural artifact, a national symbol, and a communication vehicle, and it must be secure against counterfeiting. When all these elements are considered, the design and production of a bank note is a formidable challenge.

The Art and Design of Canadian Bank Notes is the second in a series of books about the Bank of Canada. This journey behind the scenes explores the demanding world of bank note design, highlighting the beauty of Canada's bank notes and celebrating the engraver's art.

This book can be purchased through the Bank's website at www.bankofcanada.ca or at the Currency Museum in the Bank of Canada's head office building in Ottawa.



Building Awareness of Security Features

Security features are effective only when people use them to authenticate notes. Through its regional offices, the Bank delivers training and information sessions to retailers across the country and works with the media to increase awareness of the security features used on bank notes. The Bank works closely with the RCMP and other Canadian law-enforcement agencies in developing and delivering education and awareness programs to help deter and prevent

counterfeiting. Online materials and a training module are available at www.bankofcanada.ca/en/banknotes/education.

The Bank conducts surveys of bank note usage, including retailers' verification practices. Results from these surveys are posted on the Bank's website at www.bankofcanada.ca/en/banknotes/survey and are used to help formulate strategies for training and communication. The Bank has also started to conduct research on the ease with which security features can be used to authenticate bank notes.

During the year, the Bank's Currency Museum in Ottawa continued to play an important role in educating the public about bank notes and counterfeit detection, in addition to maintaining the National Currency Collection and promoting an understanding of the Bank's role in Canada's economy. Approximately 37,000 people visited the Museum's exhibitions or took part in school programs in Ottawa, and an impressive 182,500 people participated in outreach programs outside Ottawa.

For its new medium-term plan, the Bank developed a new bank note communication strategy, which will be directed towards both parties involved in a cash transaction: the retailer and the customer. It will encourage retailers to check bank notes as an integral

part of their daily routine and will promote public awareness of that behaviour as a prudent practice that benefits everyone.

Promoting Compliance

The Bank assists in the deterrence and apprehension of counterfeiters through its compliance program. This program focuses on

- increasing recognition of counterfeiting as a serious crime by raising awareness of its social and economic consequences
- providing police officers and Crown prosecutors with information and material to facilitate the investigation and prosecution of counterfeiting offences



RCMP officer demonstrates security features at Vancouver's Agribition.



Deputy Governor Pierre Duguay presented the Law Enforcement Award of Excellence for Counterfeit Deterrence to Sergeant Mary Kostashuk from RCMP "E" Division Commercial Crime Section in British Columbia and Constable Kurtis Bosnell from the Upper Fraser Valley Regional Detachment of the RCMP. Their efforts resulted in the shutdown of a major operation and the conviction of its leader. From left to right: Deputy Governor Pierre Duguay, Sergeant Mary Kostashuk, RCMP Commissioner Giuliano Zaccardelli, and Constable Kurtis Bosnell.

In 2006, the Bank increased the reach and effectiveness of its compliance program.

An important element of this program involves working with the federal Department of Justice and the provincial Attorneys General to support prosecution efforts by providing background material on trials and sentencing precedents. Increasingly, an affidavit on the prevalence and impact of counterfeiting is being used successfully in the sentencing of persons convicted of counterfeiting. These resources are posted on the Bank's website at www.bankofcanada.ca/en/banknotes/legal_resources.html.

Maintaining the Quality of Bank Notes in Circulation

The bank note distribution system, developed in partnership with financial institutions, provides for the joint management of the flow of notes among these institutions. It enables the Bank to remove worn and counterfeit notes from circulation and to provide an adequate supply of quality bank notes. Branches of financial institutions ship their unfit and surplus notes to their regional distribution centres, which hold fit notes on behalf of the Bank and send unfit notes to the Bank's

operations centres for processing. Liaison with staff of the financial institutions at regional distribution points is maintained by the Bank's regional representatives. During 2006, the Bank examined ways of enhancing the distribution system to improve the condition of notes in circulation.

With help from Canadian financial institutions, the Bank conducted an aggressive program to replace bank notes from earlier series with the new *Canadian Journey* series. It is estimated that at the end of 2006, 87 per cent of all notes in active circulation (excluding the newly upgraded \$5 denomination) were from the new series.

In conjunction with the RCMP and the financial institutions participating in the bank note

distribution system, the Bank implemented a new process to speed the collection and processing of counterfeit bank notes removed from circulation. This process provides the Bank with more timely information on the incidence of counterfeiting and lets law-enforcement agencies focus on investigative work rather than the administrative matters involved in handling counterfeit notes. This has proven very valuable to all participants.

The Bank has begun a program to upgrade its note-processing infrastructure. This will provide additional capability and flexibility in processing notes, while ensuring efficiency and reducing risks. Important work was also carried out to strengthen contractual relationships with suppliers.