
Section 4

Other functions

Currency issuance and management

Under Section 25 of the Reserve Bank Act, the Reserve Bank has the responsibility, and the sole right, to issue bank notes and coins in New Zealand. Issuing bank notes and coins is one of several buttresses that help ensure that the Reserve Bank retains the ability to achieve and maintain price stability. (Banks need to hold other Reserve Bank deposit liabilities in order to purchase notes and coin.) The Reserve Bank focuses on ensuring that the currency issue is managed in a secure and cost-effective way, to meet this dimension of the payment needs of New Zealand households and businesses. Substantial efficiency gains have been achieved in recent years through a number of initiatives, several of which have made the Reserve Bank's currency operations a model from which other central banks have sought to learn.

Our statutory role in the currency area includes determining the design and composition of the notes and coins. Consistent with our focus on a cost-effective approach to the currency issue, in 2004/5 the Bank undertook an extensive review of New Zealand's 'silver' coinage. The Bank consulted widely with a range of interested parties, commissioned surveys of retailers and the general public, and released proposals for public discussion. On 31 March 2005, after evaluating all the information collected, the Bank announced that, although the designs on the coins will not be changed, the following changes will be made:

- The 10, 20, and 50 cent coins will be made smaller and the inner core of the coins will be changed to steel.
- The new 20 and 50 cent coins will be nickel-plated to give a silver appearance and the 10 cent coin will be copper-plated.
- The 20 cent coins will have a distinctive edging, and the 10 and 50 cent coins will be unmilled.
- The 5 cent coin will be withdrawn from circulation.

To implement the changes, the Reserve Bank invited several overseas mints to submit tenders for the supply of new coins. After an extensive evaluation process, it was announced recently that the Royal Canadian Mint had been awarded the contract to supply New Zealand coins for the

period 2006 to 2009. The Bank has invited tenders for the sale for scrap of old coins that will be recovered after the changeover in 2006.

The introduction of new coins will bring major ongoing benefits, but there will be transition costs for many businesses that handle coins. The largest costs will be for the recalibration of coin 'changer' vending machines, and coin counting and sorting equipment. The adjustments required will vary from full machine replacement (in a very small number of cases affecting old machines) to a 15 second reprogramming for parking 'pay and display' type machines. It will be relatively simple to reprogramme the many modern coin vending machines that have been used in New Zealand since about 1992.

The Bank will assist those in the coin-handling business by:

- distributing production coins for testing and for the calibration of machines six months before the first issue day;
- facilitating the transfer of new coins to retailers; and
- facilitating the return of old coins to main centres.

The Bank has been working closely with the industry to ensure a smooth transition and to keep to a minimum any operational risks surrounding the changeover.

Early next year the Bank will launch a public awareness programme to explain what will happen when the new coins are issued and what people should do with their old coins.

The Bank plans to issue the new coins around July 2006. Experience from the introduction of the euro notes and coins in 2002 suggests that four to six weeks after the first issue of the new coins they will have largely replaced the existing coins. The Bank expects to 'demonetise' the current coins about three months after the new coins are issued. From that date they need no longer be accepted as payment for goods and services. However, the Bank itself, or its agents, will always redeem the coins at face value. The period between the introduction of the new coins and the formal demonetisation of the old ones will be shorter than we have adopted in the past (when the 1 and 2 cent

coins and \$1 and \$2 dollar notes were demonetised). However, the three-month period between issuance and demonetisation of the old coins is the same as was used for the highly-successful launch of the euro notes and coins in 2002. Under Section 26 of the Act, the Minister of Finance's consent is required for the Reserve Bank to demonetise any notes and coins that have already been issued. Earlier this year, the Minister agreed to the Bank's plans to demonetise the existing 5, 10, 20, and 50 cent coins in 2006, although a date has yet to be specified.

It is not expected that the Bank will need to make any other changes to these coins, unless it decides to change the designs, for at least 20 or 30 years.

Electronic payment media have become increasingly widely used in recent decades, and stored value cards have also begun to have a greater presence internationally. In the longer term, this raises issues as to whether central banks, such as the Reserve Bank, should eventually consider issuing some form of electronic money themselves, to complement the current physical currency. We continue to monitor the literature in the area and to be alert to any future international developments.

Banking and settlement services

Section 32 of the Reserve Bank of New Zealand Act 1989 allows the Bank to provide settlement account services for financial institutions on agreed terms and conditions. Settlement services are provided through the Exchange Settlement Account System (ESAS), a real-time gross settlement system. Transactions in excess of \$32 billion were settled across ESAS system on average each working day of the last financial year. At present ten of the registered New Zealand banks and Continuous Linked Settlement Bank (CLS) hold settlement accounts in ESAS. Pricing in the ESAS system is set to recover the Reserve Bank's operational and development costs.

Under section 34 of the Act, the Bank also provides some banking services to the Government; in particular, the overnight balance in the Crown's operating accounts is held at the Reserve Bank. These two operational roles are somewhat interconnected and together also help underpin

our ability to secure effective control over monetary conditions.

Austraclear clearing and settlement System

Section 35 of the Reserve Bank Act enables the Bank to provide securities registry services. The Bank is the system operator of the electronic securities clearing and settlement service is provided to both investors and financial service providers. Beneficial owners of securities deposit them with the Bank's wholly-owned subsidiary New Zealand Central Securities Depository Limited (NZCSD) which acts as custodian trustee. NZCSD holds debt and equity securities with a combined value of almost \$90 billion dollars. The average daily value of securities settled and cash transferred by the Austraclear system exceeds \$8 billion. A commercial charging structure is in place which generates a return on the capital invested in the system.

The Austraclear and ESAS systems are highly integrated. The systems are the cornerstone of the institutional national payments infrastructure and operating these systems provides a further useful window for the Bank on developments affecting participants in the New Zealand financial markets. It is, of course, essential that the systems are well supported and meet international operating standards for payments and settlements. The Bank is committed to undertaking a major upgrade of these systems before the end of 2007 and will ensure that the applications and associated databases are appropriately supported by relevant vendors after that date.

The Bank formerly acted as registrar and paying agent for issuers of debt securities. Effective from December 2004, the Bank withdrew from the business of providing registry services for issuers.