

Paper for the Panel on Financial Affairs
Recent Surfacing of Counterfeit HSBC \$1,000 Notes

Background

A new counterfeit HSBC \$1,000 note, based on the old-2000 and 2002 series with the holographic window thread has been discovered recently. Up to 22 March 2007, a total of 1,306 such counterfeit notes have been reported to the Police. Most of the counterfeits were discovered within a week of the first detection. The rate at which the counterfeit notes were discovered stabilised after the public alert issued by the Police on 15 March 2007, which helped to heighten public awareness and deter the circulation of counterfeits. So far, the majority of these counterfeits have been detected by the banking sector and all cases have been reported to the Police for investigation. The number of counterfeit notes discovered so far represents 0.0015% of the total of 87 million \$1,000 notes in circulation, or 15 parts per million.

Actions taken by the HKMA

2. The Hong Kong Monetary Authority (HKMA) has been working closely with the Police, the Hong Kong Association of Banks (HKAB) and the Hongkong and Shanghai Banking Corporation Limited (HSBC) on this matter. After discussion with the HKMA, the Police held a press conference on Thursday 15 March to alert the public to the surfacing of this new counterfeit and give information on how to differentiate the counterfeit note from the real one. Since the banking channel seemed to be the main target of the counterfeiters, the HKMA advised HSBC to issue a notice to other banks through HKAB advising them of the surfacing of the counterfeit and of the ways to distinguish the counterfeit note, and requesting them not to re-circulate

the old-2000 and 2002 series HSBC \$1,000 notes and instead to issue only the new 2003 series HSBC \$1,000 notes to the market.

3. HSBC has gradually been taking the old series \$1,000 note out of circulation over the past few years through normal wear and tear. In view of the recent development, there is a need to expedite this process with the aim of continuing to reduce the numbers in circulation to contain the problem and to facilitate detection by bank staff and the Police. The HKAB circular was intended to achieve this objective and to minimise the risk that counterfeit banknotes would be re-circulated to the public through the banks. In view of the public interest in the matter and the growing number of counterfeit notes discovered in the following days, senior officials including the Financial Secretary and the Monetary Authority gave assurance that proper arrangements had been made and sufficient stocks of the new-series notes were available to meet requirements for exchanging of notes. A press release was issued to this effect on 20 March.

4. Given the need to ensure that banks had sufficient stocks of the new series banknotes at all branches and that frontline staff were all briefed properly, the HKMA has been working closely with the banking industry to this effect and consequently a further HKAB circular was issued on 20 March 2007. We believe that the steps taken by the HKMA and the banking industry have been effective in speeding up replacement of the old-series HSBC \$1,000 notes in an orderly manner and making it more difficult for the counterfeiters to distribute the notes.

5. In conjunction with the Police, the HKMA has been arranging a series of seminars for bank staff, money changers and retailers on how to identify the new counterfeits: 22 such seminars have been and will be held in the next two weeks. The HKMA has also placed information on its website

on how to identify the new counterfeit and the new security features of the new 2003-series banknotes. These efforts, and the general response to the issue, will be sustained and modified as necessary.

Relevant provisions under the Legal Tender Notes Issue Ordinance

6. The Legal Tender Notes Issue Ordinance provides for the regulation of issue of legal tender notes and their legal tender status in Hong Kong. Section 3(2) of the Legal Tender Notes Issue Ordinance stipulates that “..... *the Financial Secretary may, with the approval of the Chief Executive in Council, by notice in writing authorize a bank to issue banknotes subject to such terms and conditions as the Financial Secretary thinks fit and specified in the notice including, but without limiting the generality of the foregoing, terms and conditions relating to –*

- (a) *the design, denomination, means of production, distribution, quantity, safe-keeping or destruction of any such notes;*
- (b) *arrangements for any such issue which are consistent with the object of maintaining the stability of Hong Kong’s currency.”*

7. HSBC is one of the three note-issuing banks in Hong Kong which has been authorized by the Financial Secretary to issue banknotes pursuant to section 3(2) of the Ordinance.

8. It follows that banknotes issued by HSBC are legal tender notes in Hong Kong. Section 4 further stipulates that “..... *all legal tender notes shall be legal tender in Hong Kong to any amount and any liability to pay silver currency may be discharged in such notes and in particular every such note shall be deemed to be the currency of Hong Kong for the purpose of any*

promise to pay printed thereon”.

9. Being legal tender, the HSBC notes are a mode of payment which is regarded by law as sufficient and valid for discharging a payment obligation. However, as in all kinds of commercial transactions, parties to a transaction may determine the terms of the transaction including the mode of payment.

Conclusion

10. The HKMA recognises the seriousness of this matter and is taking steps to maintain the stability and integrity of, and public confidence in, the currency, and Hong Kong’s status as an international financial centre. Over the years, the HKMA has increased the safety and security of our currency by introducing new security features and banknote designs in order to stay ahead of counterfeiters. The latest series of banknotes, introduced in 2003-2004, includes four further security features not found in the 2000 and 2002-series \$1,000 notes. Five new series \$1,000 banknotes have been introduced since 1985: by international standards this is a very high frequency of innovation. For the future, the HKMA will continue to review different technologies with the aim of improving the security and design of note issue. The recent announcement of the trial issue of a \$10 dollar polymer note is a case in point.

Hong Kong Monetary Authority

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