

**TESTIMONY OF LARRY R. FELIX, DIRECTOR  
BUREAU OF ENGRAVING AND PRINTING  
UNITED STATES DEPARTMENT OF THE TREASURY**

BEFORE THE HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON  
DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE AND  
TECHNOLOGY

To be submitted for the record

July 19, 2006

Chairman Pryce, Representative Maloney and members of the subcommittee:  
Thank you for holding this hearing and inviting me to testify. I appreciate the  
opportunity to report on the initiatives of the Bureau of Engraving and Printing  
(BEP).

MISSION OVERVIEW OF THE BEP

The BEP is the security printer for the United States. While our primary product  
is Federal Reserve notes, we also produce other security documents on behalf of  
Federal agencies. The BEP uses state-of-the-art equipment, in combination with  
the exceptional technical competence of our workforce, to efficiently produce  
billions of Federal Reserve notes each year.

The BEP's operations are financed through an industrial revolving fund; so, we  
do not receive annual appropriations from the Congress. Instead, the BEP is

reimbursed directly by our customers for the products that we produce. By far, our largest client is the Federal Reserve. At the end of 2005, BEP ended the production of postage stamps. The BEP had produced U.S. postage stamps on behalf of the Postal Service since 1894.

The BEP operates from two locations: the Washington, DC Facility at 14<sup>th</sup> and “C” Streets, S.W. and the Western Currency Facility, situated in Fort Worth, Texas. The Western Currency Facility prints approximately fifty-five percent of the Bureau’s annual currency output.

#### U.S. CURRENCY ANTI-COUNTERFEITING PROGRAM

The goal of staying ahead of technological threats to our currency, rather than simply responding to an existing threat, requires the U.S. government to plan ahead and regularly develop new designs for currency. This means that new currency must be in development several years before the counterfeiting threat is projected to materialize.

In the mid-1990s the Bureau introduced the first major redesign of U.S. currency in 65 years. The design changes were needed to combat the emergence of a new breed of counterfeiters who were beginning to employ computers, scanners, color copiers and other emerging technologies to replicate notes. All notes, \$100, \$50, \$20, \$10 and \$5, with the exception of the \$1 and \$2 denominations,

were redesigned by the turn of the century. This design of currency was effective in combating counterfeiting threats that existed then by making it more difficult to produce a high quality counterfeit note.

Nonetheless, due to the increased availability of sophisticated digital equipment, the Advanced Counterfeit Deterrence (ACD) Steering Committee, comprised of representatives from the Department of the Treasury, Federal Reserve, U.S. Secret Service and BEP concluded that further actions were necessary to stay ahead of emerging counterfeiting threats. Consequently, U.S. currency was further enhanced with the introduction of the current design series (Series 2004) that features background colors and improved security features. Redesigned \$20, \$50 and \$10 notes were introduced into circulation in 2003, 2004 and 2006, respectively. Recently, the BEP and Federal Reserve announced that a redesigned \$5 note is expected in 2008, with a new \$100 note to follow. The government has no plans to redesign the \$1 and \$2 denominations.

The redesigned Series 2004 notes contain an array of counterfeit deterrent security features, some of which are visible and easily recognizable to the public (subtle background colors, symbols of freedom, a watermark, security thread and color shifting ink) and some of which are covert or machine readable only.

The “signature” feature of the redesigned notes is an anti-digital counterfeiting system that was developed under the auspices of the Central Bank Counterfeit Deterrence Group in cooperation with major digital printer and software

manufacturers. The U.S. effort on this initiative was led by the Federal Reserve. The anti-digital system, which is being used in a number of countries, relies on a hidden “marker” embedded in the note's design that can be read or detected by new technology digital printers and software. This new systemic design feature heralds a vibrant and growing partnership between the public and private sector to protect the Nation’s currency, and is intended to thwart increased counterfeiting of currency using digital reprographic technology. This is a significant investment in the future of currency and will greatly assist in preventing counterfeiting as the anti-digital technology becomes dominant in the marketplace.

In addition to the security features mentioned above, plans for the redesign of the \$100 note include major changes reflecting the addition of new overt features intended to deter increasingly sophisticated counterfeiting activities directed at the \$100 note.

### PUBLIC EDUCATION PROGRAM

In cooperation with the Federal Reserve, BEP administers a public education program to support the introduction of new currency designs. The goal of this program is to build an adequate threshold of awareness to ensure seamless, “business as usual” transitions as new currency designs are introduced to the public.

As I stated earlier, on June 29 the BEP issued a joint press release with the Federal Reserve and Secret Service announcing plans to redesign the \$5 note as part of ongoing security enhancements to U.S. currency. Following the announcement, outreach was conducted among our contacts in the transit, financial, vending, retail and gaming industries, as well as manufacturers of cash-handling equipment, to provide ample time to these stakeholders to prepare for the introduction of the new note.

The BEP is progressing with its solicitation to acquire public education services over the next five-year period. Technical proposals have been received and are under review. We expect to award a contract this fall. Most of the duties associated with this contract will entail providing educational support for the introduction of the new \$5 note in the spring of 2008 and a redesigned \$100 note in fiscal year 2009.

Public education outreach to support the new \$100 note will be especially vital given that the value of one-hundred dollar notes comprise roughly 72% of the estimated \$762 billion of outstanding U.S. currency, an estimated two-thirds of which is held outside the borders of the United States.

## EFFICIENCY AND EFFECTIVENESS INITIATIVES

There are a number of initiatives that the BEP is in the process of implementing to enhance the efficiency and effectiveness of the organization, such as the introduction of a new 50-subject printing production process, enhanced employee development programs, and implementation of functional re-alignment to promote synergy and streamline the organization. While my tenure as BEP Director is only a few months old, I am eager to push the BEP to securely produce products of the highest quality in the most cost effective manner possible.

## CONCLUSION

This concludes my opening remarks, Madam Chairman, and I will be happy to respond to any question you or other members of the Subcommittee may wish to ask. Thank you.