

Cash Services Custodial Inventory Program

On March 17, 2006, the Board of Governors of the Federal Reserve System revised the cash services policy. The policy revisions are intended to reduce overuse of central bank services, motivate recirculation best practices and reduce the societal cost of providing fit currency. One component of the revised policy is a Custodial Inventory program that provides depository institutions an incentive to hold currency in their vaults to meet customer demand and increase currency recirculation.

A custodial inventory enables an institution to transfer currency to the Federal Reserve Bank's books, but physically hold the currency within their secured facility, thereby reducing the investment cost of holding currency long enough to recirculate it to customers. The Custodial Inventory program is applicable only to \$10 and \$20 notes. Under the program, an institution may hold in a Custodial Inventory up to four days average daily payments in \$10 and \$20 notes, provided it holds one day of average daily payments on its own books.

Eligibility Requirements

To qualify to participate in the Custodial Inventory program, an institution must demonstrate that it recirculates a minimum of 200 bundles of \$10 and \$20 notes combined per week in a Federal Reserve Bank zone or sub-zone. An institution can meet the threshold by:

- Having cross-shipped at least 200 bundles of \$10 and \$20 notes per week at the prospective CI site in the relevant Federal Reserve Bank zone or sub-zone for the last several months ;
- Providing deposit and payment records for the prospective Custodial Inventory vault demonstrating deposits from customers

totaling at least 200 bundles of \$10 and \$20 notes weekly and payments to customers (excluding shipments to the Reserve Bank) totaling at least 200 bundles of \$10 and \$20 notes weekly in the relevant Federal Reserve Bank zone or sub-zone over the last several months; or

- Demonstrating a combination of cross-shipping activity and recirculation among customers totaling at least 200 bundles of \$10 and \$20 notes in the Federal Reserve Bank zone or sub-zone over the last several months.

In addition to meeting the recirculation threshold, a potential Custodial Inventory site must comply with the Bank Secrecy Act and Anti-Money Laundering standards and must be deemed financially sound by the Federal Reserve Banks to participate in the program.

Operations and Site Requirements

In addition to Custodial Inventory eligibility requirements, an institution must meet both operations and site requirements. Program participants will be required to abide by Federal Reserve Bank-specified procedures as outlined in the manual of operating procedures, including mandated segregation of Federal Reserve Bank inventories from other holdings. Institutions must meet operations and site requirements to participate as follows:

- Pass a site inspection conducted by the Federal Reserve Bank and meet minimum physical and operational security standards including closed circuit (CCTV) camera coverage and/or other ways of monitoring access to areas where Custodial Inventory holdings are stored or handled.
- Keep one day of average daily payments in \$10 and \$20 notes on its own books before transferring currency into the Custodial Inventory.
- Sign an agreement with the Federal Reserve Bank to indemnify the Federal Reserve Bank against any theft or loss.
- Segregate Federal Reserve currency from other currency on hand.

What a Custodial Inventory Participant Can Expect

Once an institution has established a Custodial Inventory, the local Federal Reserve Bank will monitor the daily deposits to and withdrawals from that inventory and will periodically perform site reviews to ensure compliance with the program requirements. The institution must agree to allow full access by Federal Reserve Banks, the Board of Governors, the Government Accountability Office and their agents for unannounced audits of any aspect of the Custodial Inventory operation.

An established Custodial Inventory site must report its vault holdings and payments to its customers on a daily basis via FedCashSM Custodial Inventory, an Internet-based accounting and inventory tracking system. Payments to customers are defined as payments by the Custodial Inventory site to the institution's cash customers, including commercial customers (change orders), correspondent banks and/or its branches, the institution's own branch network and/or the ATM network, but excluding deposits to the Federal Reserve.

Getting Started (or Application Process)

If your institution meets the eligibility, operations and site requirements, you can begin the application process to establish the Custodial Inventory program. Visit the Financial Services website at <http://www.frbservices.org/Cash/CurrencyRecirculationPolicy.html> for an application, sign-up procedures and associated Custodial Inventory documents available in April 2006. Applications will be accepted beginning mid-May 2006. In submitting an application, your institution commits to abide by the terms of the CI program, assuming your institution is approved to participate. Therefore, applications require the name and title of an institution's official authorizer who must be listed on the Official Authorization List (OAL) with the Federal Reserve Banks. A current OAL is critical as it serves as the foundation for establishing your institution's authority to engage in business with the Federal Reserve Banks, as well as identifying the individuals who have the authority to bind your institution's actions as they relate to the operation of your account at the Federal Reserve Bank and your use of Federal Reserve services. An application will not be accepted without this information. To complete an OAL for your institution or to add authorized individuals to your institution's OAL, visit <http://www.frbservices.org/StandardForms/index.html>.

Institutions that have outsourced their cash handling operations also may apply for the Custodial Inventory program. Such applications will be subject to the same eligibility and physical security requirements as bank-operated cash operations and will follow the same procedures. The Custodial Inventory agreement is still between the institution and the Federal Reserve, and the institution remains responsible for all obligations under the Custodial Inventory agreement. Additionally, the institution is responsible for ensuring the vendor operates the vault and the Custodial Inventory in accordance with the requirements of the agreement and maintains responsibility for indemnifying the Federal Reserve Banks against any theft or loss.

Federal Reserve Financial Services

The Federal Reserve offers a full range of financial services to assist depository institutions in achieving a sustainable competitive advantage. We provide innovative and progressive services that enable you to capitalize on growth and revenue opportunities. Our services are designed to provide the accessibility and flexibility you need to compete in a dynamic and evolving industry.

As the nation's Central Bank, the Federal Reserve will continue to play a vital role in offering cash services to depository institutions, and also will continue to ensure the integrity of our nation's currency as deposits and orders are processed through our Banks.

Where can I get more information?

Sign up for e-alerts at <http://www.frbservices.org/HomePage/EASubsMgr.html> to receive information updates regarding the currency recirculation policy and the custodial inventory program. Also see FAQs (provide URL).

¹ "Average daily payments" are defined as payments by the Custodial Inventory site to the institution's cash customers, including commercial customers (change orders), correspondent banks and/or its branches, the institution's own branch network and/or the ATM network, but excluding deposits to the Federal Reserve. This requirement must be satisfied before transferring currency into a Custodial Inventory.

² Reserve Banks have established "sub-zones" for large metropolitan areas that are located at a significant distance from the nearest Reserve Bank office. Deposits and orders by institutions with branches in the sub-zone will be assessed cross-shipping fees separately from the institutions activities in the rest of the zone.

³ Note that the Reserve Banks expect the Custodial Inventory site to discontinue or at least substantially reduce cross-shipping if a Custodial Inventory is approved.