



**Federal Reserve Banks  
Operating Circular No. 2**

**CASH SERVICES**

**Effective November 1, 2009**

## CASH SERVICES

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## 1.0 SCOPE

This Circular and the Cash Services Manual of Procedures contain the provisions that apply to an Institution's Cash transactions with a Federal Reserve Bank. An Institution that orders Cash from, and/or deposits Cash with, a Federal Reserve Bank is, by such action, deemed to have agreed to all the provisions of this Circular and of the Cash Services Manual of Procedures, as they are amended from time to time. Each Federal Reserve Bank has issued an operating circular identical to this Circular.

In the event of any conflict between this Circular and the Cash Services Manual of Procedures, the Circular will control.

## 2.0 DEFINED TERMS

For the purposes of this Circular, the following definitions apply:

- 2.1 "Account"** means an Institution's, or its designated correspondent's, account on the books of a Federal Reserve Bank. See Operating Circular No. 1, Account Relationships.
- 2.2 "BEP"** means the Bureau of Engraving and Printing of the Department of the Treasury.
- 2.3 "Business Day"** means any day that We are open for conducting all or substantially all Our banking functions, but excludes Saturdays, Sundays and holidays. The Federal Reserve Bank's holiday schedule is posted on the Website.
- 2.4 "Business Week"** means Monday through Friday.
- 2.5 "Cash"** means currency and coin.
- 2.6 "Cash Services"** means ordering Cash from and/or depositing Cash with a Federal Reserve Bank.
- 2.7 "Cash Services Manual of Procedures" or "CSMOP"** means the Cash Services Manual of Procedures, which is published on the Website, and which can be found at the following frbservices.org link:  
[http://www.frbservices.org/files/regulations/pdf/operating\\_circular\\_2\\_cmop.pdf](http://www.frbservices.org/files/regulations/pdf/operating_circular_2_cmop.pdf).
- 2.8 "Circular"** means this Operating Circular 2, Cash Services, and any appendix, exhibit and supplement or schedule referenced herein, as amended from time to time.
- 2.9 "Coin"**
- 2.9.1 "Current coin"** means coin that is suitable for continued circulation, does not show excessive wear or damage and can be identified readily as to genuineness and denomination.
- 2.9.2 "Uncurrent coin"** means coin that shows excessive wear due to natural abrasion, but that can be identified readily as to genuineness and denomination and is machine countable.

- 2.9.3 “Mutilated coin”** means coin that has been bent or twisted out of shape, punched, clipped, plugged, fused or defaced but that can be identified as to genuineness and denomination.
- 2.9.4 “Contaminated coin”** means coin that may pose a health risk or safety hazard to individuals handling the coin due to exposure to substances like chemical, liquid, biological or other contaminants.
- 2.10 “Covered Denomination”** means, for purposes of Cross-shipment and the Custodial Inventory Program, \$10 or \$20 denomination notes.
- 2.11. “Cross-ship”** means You deposit fit notes of a Covered Denomination and order the same denomination within the same Business Week in a Zone or Sub-zone.
- 2.12 “Currency”—**
- 2.12.1 “Fit currency”** means a note that is suitable for continued circulation and is sufficiently clean to allow its genuineness and denomination to be readily ascertained (current Federal Reserve fitness guidelines are available on the Website).
- 2.12.2 “Unfit currency”** means a note that is not suitable for further circulation because of its physical condition, such as torn, dirty, limp, worn or defaced.
- 2.12.3 “Mutilated currency”** means a note that has been damaged to the extent that one-half or less of the note remains, or its condition is such that its value is questionable and special examination by trained experts at the Department of the Treasury, Bureau of Engraving and Printing is required before any exchange is made.
- 2.12.4 “Contaminated currency”** means a note damaged by or exposed to a contaminant to the extent that it cannot be processed under normal operating procedures or may pose a health or safety risk.
- 2.13 “De minimis Exemption”** means a specified number of bundles per calendar quarter that an Institution may Cross-ship without incurring a Recirculation Fee. The amount of the current exemption is specified on the Website.
- 2.14 “Dual Control”** means that two employees maintain custody of a currency and/or coin shipment and both verify it to the appropriate records.
- 2.15 “Endpoint”** means an Institution's head office or branch office, or any cash operation center or vault operated by or on behalf of an Institution, that has been assigned a 4 digit endpoint identifier by the Federal Reserve Bank for purposes of obtaining Cash Services.

- 2.16** “**Federal Reserve Dock**” means a Federal Reserve Bank’s dock or a dock at an off-site coin terminal<sup>1</sup> or cash depot<sup>2</sup> We have authorized.
- 2.17** “**Institution,**” “**You,**” or “**Your**” means an entity that uses Cash Services provided by a Federal Reserve Bank.
- 2.18** “**Official Authorization List**” means the form completed and submitted by You identifying those individuals in your Institution authorized to transact business with and provide instructions to the Reserve Bank, on your Institution’s behalf, except with respect to matters covered in Operating Circular No. 10, Lending.
- 2.19** “**Recirculation Fee**” means the standard national fee assessed by the Federal Reserve Banks on Cross-shipped currency. Current Recirculation Fees are specified on the Website.
- 2.20** “**Sub-zone**” means a designated smaller service area within a Zone. Current sub-zones are specified on the Website.
- 2.21** “**UCAP Fee**” means the fee assessed by a Federal Reserve Bank, pursuant to the UCAP Policy, if You exceed Cash Service usage, as specified in the UCAP Policy. Current UCAP Fees are specified on the Website.
- 2.22** “**UCAP Policy**” means the Federal Reserve Uniform Cash Access Policy published on the Website.
- 2.23** “**We,**” “**Us,**” “**Our,**” “**Federal Reserve Bank,**” “**Reserve Bank**” or “**FRB**” means the Federal Reserve Bank that is providing Cash Services and/or making the Custodial Inventory Program available to the Institution.
- 2.24** “**Website**” means the Federal Reserve Financial Services website at [www.frbervices.org](http://www.frbervices.org), or such other location as a Reserve Bank may designate.
- 2.25** “**Zone**” means a geographic area in which a Federal Reserve Bank office offers Cash Services as specified on the Website.

### **3.0 OBTAINING AND RECEIVING CASH SERVICES**

#### **3.1 REQUIREMENTS FOR OBTAINING AND RECEIVING CASH SERVICES**

To obtain Cash Services, You must:

- have, or be eligible to have, an Account on the books of a Federal Reserve Bank; and
- have access to a communications system designated by Us. You are required to comply with the provisions of Operating Circular 5, Electronic Access, which

<sup>1</sup> A coin terminal is a secure facility operated by an armored carrier that holds Reserve Bank inventories of coin, and that receives deposits from and fulfills orders of coins for Institutions on behalf of a Reserve Bank.

<sup>2</sup> A cash depot is a secure facility operated by a third party (armored carrier or depository institution) that receives deposits and distributes currency on behalf of the Reserve Bank to Institutions in the region.

include maintaining the confidentiality and security of any access control features, such as PINs, that We provide to You.

To receive Cash Services, You must comply with the procedures contained in the Cash Services Manual of Procedures, including any material referenced in the CSMOP that is published on the Website.

### **3.2 ORDER AND DEPOSIT FREQUENCY**

Subject to the UCAP Policy and subject to Section 3.3 (Cross-Shipping) of this Circular, We provide a basic level of free access to Cash Services for all Institutions. Deposits or orders beyond the basic level of access will be assessed a fee, depending on the volume and frequency of the access. For more information about the basic level of free access and the UCAP Fee see the CSMOP. If You Cross-ship currency, You may be assessed a Recirculation Fee as specified in Section 3.3.

### **3.3 CROSS-SHIPPING**

If You deposit Fit currency in a Covered Denomination (\$10s and \$20s) and order the same denomination within the same Business Week and within the same Zone or within the same Sub-zone<sup>3</sup>, a Recirculation Fee will be assessed at the end of each quarter for each bundle of currency You Cross-ship above the *De minimis* Exemption.

You agree that You will not implement any policies or procedures to circumvent the goal of promoting recirculation of Fit currency in a Covered Denomination. If, in Our sole judgment, an Institution attempts to circumvent this goal by reducing its reported Cross-shipped volume without increasing recirculation (for example, by alternating the Business Weeks in which it orders and deposits currency) the Reserve Bank may apply the Recirculation Fee to such deposits or orders.

### **3.4 CUSTODIAL INVENTORY PROGRAM**

The Custodial Inventory (CI) Program is a program established by the Reserve Banks, in accordance with the Federal Reserve Currency Recirculation Policy, which is available through the Website, pursuant to which an eligible Institution can hold currency in Covered Denominations in its vaults on behalf of a Reserve Bank. The program is described in more detail in Appendix 1 of this Circular.

## **4.0 DEPOSITS OF CASH**

### **4.1 CASH THAT MAY BE DEPOSITED**

We accept for deposit only genuine U.S. currency and coin. We do not accept foreign or Mutilated currency or coin. We may refuse Cash deposits, defer or reverse credit, and/or return deposits if You fail to comply with any of the terms of this Circular. Returns are at Your risk and expense. We also may refuse a deposit if the integrity of a bag or container appears to have been compromised or if a seal does not effectively deter access to its contents.

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<sup>3</sup> We monitor Endpoints within a Sub-zone separately from any Endpoints in the rest of the Zone. We monitor Endpoints in other parts of a Zone as a group separate from the Endpoints in the Sub-zone.

#### **4.2 DEPOSITS OF CURRENCY AND COIN**

To deposit currency or coin, You are responsible for complying with the procedures set forth in the CSMOP, including but not limited to the piece counting, verifying for authenticity, assembling and packaging requirements.

#### **4.3 MUTILATED CURRENCY**

We do not accept deposits of Mutilated currency. We may refuse a deposit or debit Your Account if Your deposit contains Mutilated currency.

You may send Mutilated currency directly to the Department of the Treasury, Bureau of Engraving and Printing (BEP). The address is found in the CSMOP. The Director of the BEP is the final authority for the settlement of a Mutilated currency claim. Information regarding Mutilated currency is available on the Internet at <http://www.bep.treas.gov>.

#### **4.4 CONTAMINATED CURRENCY AND COIN**

To deposit Contaminated currency with Us, You are responsible for complying with the procedures found in the CSMOP for handling Contaminated currency. We do not accept deposits of Contaminated coin. Please refer to the CSMOP for procedures regarding Contaminated coin.

#### **4.5 COUNTERFEIT OR UNLAWFULLY ALTERED CURRENCY OR COIN**

We do not accept deposits of counterfeit or unlawfully altered currency or coin. You should forward counterfeit or unlawfully altered currency or coin directly to Your local U.S. Secret Service office. If We detect counterfeit or unlawfully altered currency or coin in Your deposit, We forward it to the Secret Service and Your Account is charged for the difference.

#### **4.6 UNCURRENT COIN**

Information on how the FRB handles deposits of Uncurrent coin can be found in the CSMOP.

#### **4.7 MUTILATED COIN**

We do not accept deposits of Mutilated coin. We may refuse a deposit or debit Your Account if Your deposit contains Mutilated coin.

You may send Mutilated coin directly to the U.S. Mint. The address for the U.S. Mint is listed in the CSMOP. Mutilated coin is not redeemable at face value; it is redeemable only at its bullion (metal) value as established by the Director of the U.S. Mint.

#### **4.8 CREDIT FOR DEPOSIT**

Your Account is credited on the day We accept a Cash deposit from You at a Federal Reserve Dock. Credit is subject to adjustment for any difference, counterfeit, altered, or mutilated Cash, or other irregularity We detect when We verify Your deposit.

## **5.0 ORDERS FOR CASH**

### **5.1 CASH PROVIDED**

We fill a Cash order only with U.S. currency and coin. Except as provided in the CSMOP, orders are first filled with Fit currency and Current coin, as inventory levels dictate. We may, at Our discretion, reduce Cash orders to maintain currency and coin inventories.

### **5.2 ORDERS FOR CURRENCY AND COIN**

To place an order for currency or coin, You are responsible for complying with the procedures set forth in the CSMOP, including but not limited to ordering methods, standard units for orders, and the ordering schedule. Additionally, You are responsible for verifying the information in Your order. If You submit an erroneous or late order, We may charge You for any resulting costs We incur.

### **5.3 CASH SHIPMENT VERIFICATION**

You are responsible for verifying each Cash shipment You receive from Us<sup>4</sup>. We will not honor any claim You make with respect to a shipment of Cash that You have not verified in a manner acceptable to Us. For information on the verification process, refer to the CSMOP.

For a shipment received and accepted from an armored carrier intact without any discernible discrepancy, if there is a difference in Your strap and bundle count, note the difference and telephone Us immediately for further instructions. If there is a difference in Your piece count, follow the instructions in Section 6.0 (Handling Differences in Cash).

### **5.4 DEBIT FOR SHIPMENT**

Your Account is debited on the day Your Cash shipment leaves the Federal Reserve Dock.

### **5.5 ADVANCE RECEIPT OF NEW OR SPECIAL COIN RELEASES**

The Reserve Bank may, from time to time, provide You with the opportunity to order and receive new or special coin in advance of the date such coin will be released to the public, subject to any terms and conditions the Reserve Bank may require, including, but not limited to, the standard units for orders of such coin. You may distribute such coin to Your head office, branch offices, cash operation centers or vaults operated by You or on Your behalf, and respondent banks. Other than the above, You agree to not distribute such coin to any other party, including Your customers or the public, prior to the public release date the Reserve Bank announces in writing, and to comply with all related Reserve Bank requirements.

If You distribute such coin to cash operation centers or vaults operated on Your behalf, or to respondent banks, You must ensure that they are obligated to comply with all of the provisions of this Section 5.5, including the requirement that subsequent third party agents or respondent banks to which they distribute such coin are likewise obligated. Noncompliance by You, Your third party agents or Your respondent banks shall entitle the Reserve Bank to seek any or all

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<sup>4</sup> We require, at a minimum, that You control and verify a Cash shipment under Dual Control.

available remedies including, but not limited to, refusal to fill future orders for advance receipt of such coin releases.

Information on this process can also be found in the CSMOP.

#### **5.6 MINT COIN ORDER**

For a large coin order, We can arrange for the coin to be shipped directly from the U.S. Mint to You or to another location, at no cost to You. These orders are subject to special procedures, including debit procedures, that would be communicated to You. Please contact Us to make such arrangements. When You request that a Mint shipment be sent directly to a third party, Department of the Treasury rules and regulations covering direct shipments of coin to an Institution apply. More information on this process can be found in the CSMOP.

### **6.0 HANDLING DIFFERENCES IN CASH**

#### **6.1 NOTICE OF CLAIM**

For any claim You submit for a difference in a Cash shipment You receive from Us or Our authorized cash depot operator or coin terminal, You must comply with the procedures set forth in the CSMOP, which differ depending on whether the shipment was Fit currency, new currency, or coin. These procedures include, but are not limited to, the requirement that We must receive the notice within five Business Days (fifteen for coin) after You receive the Cash shipment or We will not be liable for a difference and will not consider the claim. In addition, We will not be liable for and will not consider a claim for a difference if You have paid out uncounted Cash received from Us or if the claim is submitted by a third party. You must cooperate fully with Us and promptly provide such assistance, information and documentation as We deem necessary in Our investigation of a difference.

#### **6.2 DIFFERENCE DETERMINATIONS**

We determine whether to approve a claim regarding a shipment of Fit currency or coin. The BEP determines whether to approve a claim regarding a shipment of new currency. The Mint determines whether to approve a claim regarding a shipment of new coin.

#### **6.3 DISPUTE OF ADJUSTMENT**

You must give Us written notice if You dispute an adjustment We make to Your Cash deposits. The notice must comply with and include the information in the procedures set forth in the CSMOP. These procedures include, but are not limited to, the requirement that the notice must be received by Us within five Business Days of Your receipt of the adjustment advice.

### **7.0 TRANSPORTATION OF CASH**

You must contract directly with an armored carrier for Cash transportation services. You must immediately notify Us in writing (signed by one of Your officers listed on Your Official Authorization List) of any armored carrier providing Cash transportation services for You and any changes in Your armored carriers. You must provide Us with a list of names and sample signatures of the armored carrier personnel who are authorized to pick up Cash shipments for You at the Federal Reserve Dock and You must require the armored carrier company to notify Us in writing immediately of any changes to the list of

authorized personnel. We will accept a deposit from and release a shipment to Your armored carrier if We have previously authorized the carrier to access the Federal Reserve Dock. We may specify the dates and times when Your armored carrier is authorized to have access to the Federal Reserve Dock.

## **8.0 RESPONSIBILITIES FOR DEPOSITS AND SHIPMENTS OF CASH**

You bear the risk of loss of Your deposit of Cash until We accept the deposit. For Our Cash shipments, You bear the risk of loss after the shipment is delivered to Your armored carrier at the Federal Reserve Dock.

## **9.0 MISCELLANEOUS**

### **9.1 EFFECT OF THIS CIRCULAR ON PREVIOUS CIRCULARS**

This Circular supersedes all prior versions of Reserve Bank Operating Circular 2, Cash Services, and shall be effective on November 1, 2009.

### **9.2 AMENDMENT**

We reserve the right to amend this Circular, including any appendix, manual of procedures, exhibit, supplement or schedule, and any fees or other information on the Website, referenced herein, at any time without advance notice.

### **9.3 WAIVER**

No delay or failure by the Reserve Bank to exercise any right or remedy under this Circular is deemed to be a waiver of such right or remedy. No waiver of a single breach or default under this Circular is a waiver of any other breach or default. Any waiver under this Circular must be in writing.

### **9.4 TITLES**

Titles are provided for each paragraph for convenience in reference, but the titles themselves shall not be considered part of the Circular.

### **9.5 FORUM, GOVERNING LAW**

The exclusive forum for any legal action, suit or proceeding arising under this Circular is the United States District Court and Division where the head office of the Reserve Bank involved in that legal action, suit or proceeding is located. This Circular, and any legal action, suit or proceeding arising hereunder, is governed by the Federal law of the United States of America and, in the absence of controlling Federal law, the laws of the State in which said Reserve Bank's head office is located, notwithstanding its conflict of law rules.

### **9.6 INDEMNITY**

In consideration of the Cash Services provided under this Circular, the Institution shall indemnify, hold harmless and defend the Reserve Bank and its agents, officers, directors and employees from and against any and all liabilities, claims, damages, losses, costs, and expenses, including, but not limited to, reasonable attorneys' fees and expenses of litigation whether alleged by the Institution, any customer of the Institution, or any third party, arising out of the Institution's use of Cash Services, except to the extent caused by the Reserve Bank's lack of good faith or failure to exercise ordinary care.

**9.7 RESPONSIBILITY FOR SERVICES**

The Institution agrees that the Reserve Bank providing Cash Services to the Institution is responsible for those services and that the Institution will direct any service inquiries, requests or complaints regarding Cash Services only to the Reserve Bank that provided the Cash Services in question.

## APPENDIX 1: CUSTODIAL INVENTORY PROGRAM

### ARTICLE 1. GENERAL

#### SECTION 1.1 Terms.

This Appendix is issued pursuant to the Federal Reserve Currency Recirculation Policy, which is available through the Website. This Appendix and Operating Circular 2 set forth the terms and conditions applicable to the Custodial Inventory (CI) Program. The CI Program is available only to eligible Institutions. Participation in the CI Program is subject to approval by the Reserve Bank.

In the event of any conflict between Operating Circular 2, this Appendix or the CI Manual of Procedures, this Appendix and the CI Manual of Procedures will control for the CI Operations. In the event of any conflict between this Appendix and the CI Manual of Procedures, this Appendix will control.

#### SECTION 1.2 Supplemental Definitions.

Capitalized terms used but not expressly defined herein have the meaning set forth in Operating Circular 2. For purposes of this Appendix, the following definitions apply:

- 1.2.1. **“Administrative Reserve Bank”** shall mean the Reserve Bank that maintains the Institution's Master Account, pursuant to Operating Circular 1.
- 1.2.2. **“Average Daily Payments”** shall have the meaning set forth in the CI Manual of Procedures.
- 1.2.3. **“Bank Currency”** shall have the meaning set forth in Section 1.7.
- 1.2.4. **“CI Manual of Procedures”** means the Custodial Inventory Manual of Procedures, which is published on the Website (defined in Operating Circular 2), the terms of which are incorporated in this Appendix by reference.
- 1.2.5. **“CI Operating Hours”** means 7 a.m. to 4 p.m. local time of the Reserve Bank office servicing the CI, on a Business Day.
- 1.2.6. **“CI Operation”** means the necessary services and operations carried out by the Institution to hold currency in the CI Vault in accordance with the terms and conditions hereunder.
- 1.2.7. **“CI Site”** means the CI facility located at the Institution's address specified in the CI Application and Agreement.
- 1.2.8. **“CI Vault”** shall have the meaning specified in Section 1.5 of this Appendix.
- 1.2.9. **“Custodial Inventory Program” or “CI Program”** means the program established by the Reserve Banks, in accordance with the Federal Reserve Currency Recirculation Policy, which is available through the Website, pursuant to which an eligible Institution can hold currency in Covered Denominations in its vault on behalf of the

Reserve Bank in accordance with the terms and conditions hereunder.

**1.2.10. “FedCash System”** shall mean the FedCash® internet-based accounting and inventory tracking system provided by the Reserve Banks to allow the Reserve Bank and the Institution to monitor the Bank Currency.

**1.2.11. “Institution”** means an entity that operates a CI Program for a Reserve Bank.

**1.2.12. “Master Account”** shall have the meaning set forth in Section 1.12.

### **SECTION 1.3**

#### **CI Manual of Procedures.**

The Institution agrees to operate and maintain the CI Operation at the CI Site and perform its obligations hereunder in strict compliance with the requirements of the CI Manual of Procedures.

### **SECTION 1.4**

#### **Eligibility Requirements.**

The Institution agrees that it will not institute any policies or procedures to circumvent the goal of promoting recirculation of Fit currency under the CI Program.

The Institution represents, warrants and covenants that it has met, and at all times during its participation in the CI Program will continue to meet, the threshold requirement for recirculation of the minimum bundles of currency specified in the CI Manual of Procedures in order to participate in the CI Program.

### **SECTION 1.5**

#### **CI Vault Requirements.**

The Institution shall provide and maintain a separate vault or segregated secured area in a vault (the “CI Vault”) for the Bank Currency at the CI Site, and such space shall be maintained so that it is, at all times, satisfactory to the Reserve Bank. The CI Site and CI Vault are subject to inspection and prior approval by the Reserve Bank. The location of, and security maintained at, the CI Site and the CI Vault (including the physical features of the CI Vault) may not be changed without the prior written consent of the Reserve Bank. In no event shall the Bank Currency be commingled with any other property, including that of the Institution or any customer of the Institution.

The Reserve Bank’s inspection or approval of the CI Site or the CI Vault shall in no event relieve the Institution of any of its obligations (including without limitation the Institution’s obligation to provide a safe and secure CI Site and CI Vault) or otherwise limit the Institution's liability hereunder.

### **SECTION 1.6**

#### **Deposits and Withdrawals.**

At any time during the Reserve Bank’s Business Day during the CI Operating Hours, the Institution may deposit currency to and withdraw currency from the CI Vault in Covered Denominations, in accordance with the requirements specified in the CI Manual of Procedures. The Institution will not be assessed Recirculation Fees under Section 3.3 of Operating Circular 2 for any such deposits or withdrawals from the CI Vault.

**SECTION 1.7**      **Property Rights.**

All currency deposited in the CI Vault is and at all times shall remain the property of the Reserve Bank (“Bank Currency”). The Institution agrees to keep the Bank Currency free and clear of any and all claims, liens, encumbrances and legal processes of any kind.

**SECTION 1.8**      **Accounting for CI Transactions.**

The Institution will account for CI transactions via the FedCash System to allow both the Reserve Bank and the Institution to monitor the Bank Currency. On and as of each Business Day that the Institution makes an entry in the FedCash System, the Institution represents and warrants that the amounts entered are accurate and complete, and reflect the inventory actually held in the CI Vault. The Institution agrees to log on to the FedCash System each Business Day in order to receive any notices or communications that are posted on the FedCash System.

**SECTION 1.9**      **Minimum Holdings and Inventory Cap.**

The Institution must hold on its own books currency in Covered Denominations in an amount equal to no less than one day of Average Daily Payments before it can deposit currency into the CI Vault. The Institution may deposit into the CI Vault currency in Covered Denominations in an amount equal to no more than four days of Average Daily Payments.

**SECTION 1.10**      **Security and Monitoring.**

At all times when the Institution handles, holds or stores Bank Currency, the Institution agrees to keep such currency safe and secure in accordance with the security guidelines and requirements for vaults, access control, and camera coverage requirements specified in the CI Manual of Procedures.

**SECTION 1.11**      **Reports; Quality Monitoring.**

The Institution shall provide to the Reserve Bank any reports or information that the Reserve Bank may reasonably request to allow the Reserve Bank to monitor the CI Program.

The Reserve Bank may also, from time to time, upon reasonable notice, require the Institution to deliver unprocessed currency from the CI Site to the Reserve Bank, for quality monitoring purposes, provided that the Reserve Bank will bear the costs of transportation and provide appropriate credit to the Institution, subject to Operating Circular 2.

**SECTION 1.12**      **Master Account.**

The Institution shall maintain a master account (“Master Account”) with the Administrative Reserve Bank, subject to the terms of Federal Reserve Bank Operating Circular 1, for debits and credits of all activity in the CI Program, and any necessary adjustments. The Master Account will be debited on the day the currency is withdrawn from the CI Vault for the full dollar value of the withdrawal, and credited on the day that the currency is deposited in the CI Vault for the full dollar value of the deposit. If the Reserve Bank is not the Administrative Reserve Bank, the Institution acknowledges and agrees that it is liable to both the Reserve Bank and the Administrative Reserve Bank, for any loss or liability in connection with operation and maintenance of the

CI Vault and the CI Operation hereunder, including but not limited to any losses covered by the indemnity in Section 4.3 of this Appendix, and that any such losses may be charged against the Institution's Master Account. Transactions under this Appendix are intended to be transactions under Article 2.0 of Federal Reserve Bank Operating Circular 1.

**SECTION 1.13**    **Subcontractor; Assignment.**

The CI Vault, the CI Operation, and the rights, duties or obligations hereunder, may not be assigned, delegated or subcontracted by the Institution without the prior written consent of the Reserve Bank. Any assignment, delegation or subcontracting made without the required consent, is and will be void.

The Institution may subcontract the CI Vault and CI Operation to a subcontractor, provided that the Institution has obtained the prior written approval of the Reserve Bank; and the Institution represents and warrants that it has entered into an agreement with such subcontractor requiring it to comply in all respects with the CI Manual of Procedures and all applicable provisions of Operating Circular 2 and this Appendix, including but not limited to Sections 3.2, 3.3, 4.1, 5.1, 5.2, 5.3, 5.4, and 5.5 of this Appendix. Notwithstanding any Reserve Bank consent to a subcontractor, (a) the Institution remains responsible for any and all performances and obligations required hereunder, including but not limited to the obligation to properly supervise, coordinate and perform all obligations required hereunder; and (b) no subcontract shall bind or purport to bind the Reserve Bank.

**ARTICLE 2.**        **TERMINATION**

**SECTION 2.1**        **Termination.**

The CI Operation may be terminated by either party for any reason upon thirty (30) days prior written notice to the other party.

**SECTION 2.2**        **Termination for Cause.**

Notwithstanding Section 2.1 above, the Reserve Bank may terminate the CI Operation immediately, in whole or in part, for cause, upon written notice to the Institution. For purposes of this paragraph "cause" shall include, as determined by the Reserve Bank and without limitation:

- a) Material failure by the Institution (or its subcontractor) to observe or perform any of the terms, conditions, obligations or provisions hereunder, including the CI Manual of Procedures;
- b) Falsity of any representation or warranty or material statement made or furnished by the Institution to the Reserve Bank, which was false when made or furnished;
- c) Failure to notify the Reserve Bank in a timely manner of any claim, loss, nonperformance, delay or adverse event;
- d) The Institution ceases conducting business in the ordinary course, becomes bankrupt or insolvent, makes a general assignment for the benefit of creditors, suffers or permits the appointment of a receiver for

its business or assets, avails itself of or becomes subject to any petition or proceeding under any statute of any state or country relating to insolvency or the protection of the rights of creditors, or any other insolvency or bankruptcy proceeding or other similar proceeding for the settlement of the Institution's debt is instituted, including the occurrence of a liquidation, execution or seizure of substantially all of the Institution's assets;

- e) The actual or attempted levy, seizure, attachment, execution or garnishment of Bank Currency at the CI Site;
- f) The conduct of business by the Institution in such a manner as to, in the sole opinion of the Reserve Bank, adversely affect the name, reputation, property or goodwill of the Reserve Bank;
- g) The Reserve Bank receives information which, in the sole opinion of the Reserve Bank, raises significant concerns about the Institution, its safety or soundness, or its operations; or
- h) The Institution is acquired, sold, merged or otherwise experiences a change of control. As used in the foregoing sentence, "control" means ownership of more than fifty percent (50%) of the outstanding shares or securities representing the right to vote for the election of directors or other managing authority of the Institution or its parent company.

The Reserve Bank may also require the Institution to terminate any subcontractor arrangement under any of the conditions set forth in subsections (a) through (h) above with respect to a subcontractor, considering the subcontractor for this purpose as if it were the Institution.

### **SECTION 2.3 Additional Remedies.**

Upon the occurrence of any of the "for cause" events specified in Section 2.2, the Reserve Bank may, in its sole discretion, exercise any or all of the following remedies, in addition to or in lieu of termination:

- a) Personally, or through its agents, take immediate possession from the Institution of any or all Bank Currency wherever found and for this purpose enter upon the Institution's premises where any Bank Currency is located and remove the same without notice or process of law and free from all claims of any nature whatsoever by the Institution;
- b) Proceed by appropriate court action or other actions to enforce performance by the Institution of its obligations hereunder, and to recover damages (including reasonable attorneys' fees and expenses of litigation) for breach thereof, including but not limited to enforcing the indemnity obligations hereunder and charging any losses against the Master Account;
- c) Cause the Institution, at its sole cost and expense, promptly to return any or all Bank Currency to the Reserve Bank or to such other location(s) as the Reserve Bank designates; and/or;
- d) Pursue any other remedy available to the Reserve Bank at law or in equity.

**SECTION 2.4**      **Institution's Obligations upon Termination.**

Notwithstanding the termination of the CI Operation by either party, and subject to the provisions of Article 6 (Survival of Rights), the Institution's obligations hereunder will remain in full force and effect until such time as all Bank Currency has been removed from the CI Site and returned to the Reserve Bank, and any amounts due and owing to the Reserve Bank hereunder have been paid.

**SECTION 2.5**      **Suspension.**

Notwithstanding the foregoing, the Reserve Bank may, at any time, with or without cause, order the Institution in writing to suspend the CI Operation hereunder, in whole or in part, for such period of time as the Reserve Bank may determine.

**ARTICLE 3.      INDEPENDENT CONTRACTOR**

**SECTION 3.1**      **Status.**

In connection with operating the CI Vault hereunder, the Institution shall operate as and be considered an independent contractor and not an agent of the Reserve Bank. The Institution must not make any representation that it is an agent of the Reserve Bank and the Institution shall have no authority to assume any obligation on behalf of the Reserve Bank, or to bind or otherwise obligate the Reserve Bank in any manner.

**SECTION 3.2**      **Full Control.**

All persons assigned by the Institution to perform CI Operation services at the CI Site shall be responsible, competent, and of good repute and shall remain under the exclusive direction and control of the Institution or any subcontractors of the Institution designated by the Institution to assist in the operation of the CI Operation. Such persons shall at all times be deemed to be employees of the Institution or such subcontractors as the case may be and shall not at any time or for any purpose, be deemed agents, subagents, or employees of the Reserve Bank. With respect to such employees, the Institution or such subcontractors, as the case may be, shall have sole responsibility for conducting background checks, supervision, daily direction and control, withholding applicable payroll or other local taxes, and obtaining employee disability insurance or any other benefits to the extent required under applicable laws.

**SECTION 3.3**      **Background Checks.**

The Institution represents, warrants and covenants that it has performed appropriate reference, fingerprint and criminal background checks and that none of its employees, agents, or subcontractors performing the CI Operations have been convicted of a crime of dishonesty, breach of trust, or money laundering. The Reserve Bank reserves the right, but is not obligated, to conduct reference, fingerprint, or other criminal background investigations of the Institution and its employees, agents, or subcontractors.

## **ARTICLE 4. STANDARD OF CARE AND INDEMNITY**

### **SECTION 4.1 Standard of Care.**

The Institution (and any subcontractor) shall exercise reasonable care in operating and maintaining the CI Operation and in holding and dealing with currency in the CI Vault. The Institution shall be responsible for any losses sustained by the Reserve Bank arising from the negligence, fraud, or failure to exercise reasonable care by the Institution, its employees, agents, subagents, or subcontractors in the operation and maintenance of the CI Operation and performance of its obligations hereunder.

### **SECTION 4.2 Responsibility for Losses of Currency.**

The Institution assumes full responsibility, and shall be strictly liable, for any loss of the currency in the CI Operation, without regard to cause, fault, standard of care, insurance, deductibles or any other factor. Any such losses may be charged against the Master Account or the Institution's other accounts held at a Reserve Bank. To secure its obligations hereunder, the Institution grants to the Reserve Bank a security interest in the Institution's right, title and interest in the Master Account and any other Institution assets in the possession of, or maintained with, the Reserve Bank or the Administrative Reserve Bank. In addition, the Institution understands, acknowledges and agrees that its obligations hereunder also are secured by the security interest granted pursuant to Federal Reserve Bank Operating Circular 1.

The Institution shall promptly advise the Reserve Bank of any loss, theft, or mysterious disappearance of the Bank Currency, or any discrepancies in the amount of Bank Currency held. The Institution agrees (and will require its subcontractors to agree) to extend to the Reserve Bank's investigators, agents, employees and auditors full cooperation in investigating and resolving such events, and recovering such Bank Currency and identifying and prosecuting those responsible.

### **SECTION 4.3 Indemnity.**

The Institution shall indemnify, hold harmless and defend the Reserve Bank, the Administrative Reserve Bank, and their agents, officers, directors and employees from and against any and all liabilities, claims, damages, losses, costs, and expenses, including, but not limited to, reasonable attorneys' fees and expenses of litigation arising out of (i) any act or failure to act by the Institution or its employees, agents, subagents or subcontractors, including without limitation, negligent, reckless or fraudulent acts or willful misconduct in the operation and maintenance of the CI Vault and CI Operation, or any termination of a subcontractor required under Section 2.2 of this Appendix; (ii) any failure by the Institution, its employees, agents, subagents, or subcontractors to exercise reasonable care in the operation and maintenance of the CI Vault and CI Operation; or (iii) any breach of any of the warranties, agreements, representations or obligations hereunder.

### **SECTION 4.4 Interest on Unpaid Claims.**

If the Institution is liable to the Reserve Bank for any loss, the Institution agrees to pay to the Reserve Bank interest on the amount of its liability that

is not repaid to the Reserve Bank for each day during which any part of the amount of its liability is not repaid to the Reserve Bank. The interest rate for each such day will be the Federal Funds rate for that day as published in Federal Reserve Statistical Release H.15 by the Federal Reserve System.

## **SECTION 4.5**

### **Notice of Claims, Loss, Nonperformance, Delay or Adverse Change.**

The Institution agrees to promptly notify the Reserve Bank of:

(a) any activity that materially violates the compliance requirements set forth in Article 5 (Compliance) of this Appendix;

(b) any civil, criminal, administrative or regulatory action, or any claim brought against the Institution regarding, or arising from its performance hereunder, or that may have a material adverse effect on the Institution's ability to perform hereunder;

(c) any loss of Bank Currency, due to any cause whatsoever;

(d) any actual or probable labor dispute, or any other actual or probable cause of nonperformance or delay that interrupts or threatens to interrupt the Institution's timely performance of its obligations hereunder; or

(e) any material change in the ownership, management and/or operation of the Institution, including (i) a change due to a merger or consolidation of the Institution, or (ii) any occurrence which has, or may be reasonably expected to have, a material adverse effect on the Institution's ability to perform its obligations hereunder.

Notice under this provision must be made via telephone immediately upon learning of the violation, claim, loss, damage, nonperformance, or delay, and confirmed in writing within one (1) Business Day. Failure to give such notice will be deemed to be a material breach hereunder.

## **ARTICLE 5.**

### **COMPLIANCE**

#### **SECTION 5.1**

##### **Compliance with Laws.**

The Institution (and its subcontractor) agrees at all times to operate and maintain the CI Operation, and to perform all obligations hereunder, in compliance with all applicable federal, state and local statutes, ordinances, rules and regulations, including but not limited to compliance with the United States Department of the Treasury's Foreign Asset Control Regulations, as administered by the United States Department of the Treasury's Office of Foreign Assets Control, the Bank Secrecy Act, the USA PATRIOT Act, and regulations issued under each statute. The Institution acknowledges that regulators with jurisdiction over the Institution may examine and regulate the Institution's activities and the Institution agrees and warrants that its subcontractors will cooperate with any regulatory examination by any regulatory agency with jurisdiction over the Institution. The Institution also warrants that it has required its subcontractors, by written contract, to cooperate with any such examination.

## **SECTION 5.2 Books, Records and Accounts.**

The Institution (and its subcontractor) shall keep proper books, records and accounts, in accordance with generally accepted accounting principles, of all transactions that take place pursuant to Operating Circular 2 and this Appendix. In addition, the Institution (and its subcontractor) shall, at their own expense, keep and maintain such records in readily accessible format, including videotape and/or other documentation, as will enable the Reserve Bank to monitor, at all times, access to, and storage of the Bank Currency, and the Institution's (or its subcontractor's) strict compliance at all times during the CI Operation with the requirements hereof. The Institution (and its subcontractor) shall retain and segregate the videotapes (or other similar form of recording) for at least 45 days from the recording date. In the event a dispute relating to the CI Operation arises before destruction of the videotapes (or other recording), the Institution (and its subcontractor) shall, unless the Reserve Bank agrees otherwise in writing, retain all such recordings until the dispute is finally determined. The Institution (and its subcontractor) shall retain all other records, notes, and documentation in readily accessible format with regard to the CI Operation for not less than seven years after the expiration or termination of this CI Operation, or until any dispute relating to the CI Operation is finally determined, whichever is later. At all times during the term of this CI Operation, and such subsequent seven year period, the Reserve Bank or Other Authorized Entities shall have access to such documents, notes and records for purposes of auditing and verifying the performance of obligations hereunder, or for any other reasonable purpose, upon written notice, during the Institution's or its subcontractor's business hours.

## **SECTION 5.3 Right to Audit.**

The Reserve Bank reserves the right, but is not obligated, to conduct periodic unannounced audits, at its expense, of the Bank Currency and CI Site to determine whether the Institution and its subcontractor are performing all duties and obligations under this Appendix, Operating Circular 2, and the CI Manual of Procedures. The Institution (and its subcontractor) shall, upon presentation of proper credentials, grant the Reserve Bank or Other Authorized Entities immediate access to the Bank Currency and the CI Site, at any time and from time to time during the Institution's regular business hours, on an unannounced basis, for the purpose of inspecting the Bank Currency, conducting a physical count of Bank Currency, and auditing the Institution's books, records, and accounts as they pertain to the CI Operation. The Reserve Bank may also, at any time and from time to time, require the Institution to deliver the Bank Currency from the CI Site to the Reserve Bank for processing and verification, provided that the Reserve Bank will bear the costs of transportation. If the Institution has subcontracted any part of the CI Operation to a subcontractor, the Institution warrants that it has required its subcontractor, by written contract, to cooperate with any such audit of the Bank Currency and CI Site.

(For purposes of Article 5, all references to "the Reserve Bank or Other Authorized Entities" shall be deemed to include the Reserve Bank, any other Federal Reserve Bank, the Board of Governors of the Federal Reserve System, the Government Accountability Office, the United States

Department of the Treasury, and their agents, employees, auditors, or authorized representatives.)

The Institution shall provide to the Reserve Bank its internal and external audit schedule and a summary of the results thereof as they pertain to the CI Operation, on at least an annual basis. The Institution shall also provide notification to the Reserve Bank whenever a regulatory examination has commenced and the name of the contact information at the applicable regulatory authority responsible for the examination.

**SECTION 5.4**      **Emergency Access to the Facility.**

The Institution (and its subcontractor) agrees to grant the Reserve Bank or Other Authorized Entities immediate access to the CI Site at any time in the event of an emergency, as determined by the Reserve Bank in its sole discretion, for any of the aforesaid purposes described in Section 5.3, or to take immediate possession of Bank Currency and remove the same from the CI Site. The Reserve Bank or Other Authorized Entities will present proper credentials to the Institution's manager at the time they request admittance thereto. The Institution (and its subcontractor) will confirm, via telephone, the validity of Reserve Bank inspections with those members of the Reserve Bank's Cash Management or Audit Management staff, as specified by the Reserve Bank.

**SECTION 5.5**      **Limitation on Third Party Access.**

In no circumstances should a third party be granted any access to Bank Currency without prior notification to and approval by the Reserve Bank. To the extent feasible under the circumstances, the Institution (and its subcontractor) agrees to act in accordance with instructions provided by the Reserve Bank.

**SECTION 5.6**      **Litigation.**

The Institution represents, warrants and covenants that there is no pending or threatened litigation, civil, criminal, administrative or regulatory action, that would have a material adverse impact on the Institution's performance hereunder.

**SECTION 5.7**      **Federal Reserve Regulations and Operating Circulars.**

The Institution acknowledges and agrees that it will comply with all the relevant Federal Reserve regulations and the relevant Reserve Bank Operating Circulars, as they may be amended from time to time. Deposits and withdrawals from the CI Vault are subject to the procedural requirements set forth in the CI Manual of Procedures rather than Operating Circular 2. The Institution will continue to comply with Operating Circular 2 for all other Cash Services, including but not limited to the Institution's handling of unfit or counterfeit currency, and ordering and depositing of currency to Reserve Banks (which is subject to monitoring for Cross-shipping).

**ARTICLE 6.**      **SURVIVAL OF RIGHTS**

The provisions of Section 1.12 (Master Account), Section 2.3 (Additional Remedies), Section 2.4 (Institution's Obligations Upon Termination), Article

3 (Independent Contractor), Article 4 (Standard of Care and Indemnity), Section 5.2 (Books, Records and Accounts), Section 5.3 (Right to Audit), Section 5.4 (Emergency Access to the Facility), and any other provisions, which by their meaning are intended by the parties to survive termination hereunder, shall survive and continue after the termination or expiration of the CI Operation.

## **ARTICLE 7. NOTICES**

Any written notice required to be given hereunder will be sent to the recipient's address specified on the Custodial Inventory Application and Agreement form.

Notices are effective as follows: (a) when delivered personally or by a nationally recognized courier service to the recipient's address; (b) three Business Days after being deposited in the United States mail with postage prepaid to the recipient's address; or (c) when sent by fax to the recipient's fax number. Notice is effective upon receipt of the fax, provided that the original notice is promptly given by first class or certified mail or the recipient delivers a written confirmation of receipt of the fax. This Notices section will not be construed as meaning that the Reserve Bank or the Institution agrees to service of process by fax in any litigation proceedings.

Either party may change its address, fax number or designee for notification purposes by giving notice of the change in accordance with this Article.