

# FedCash<sup>®</sup> Services Currency Recirculation Policy

Implemented in 2006, the Currency Recirculation Policy reduced overuse of Federal Reserve Bank services by encouraging recirculation best practices, thereby reducing the societal cost of providing fit currency. The policy consists of two interrelated components: a Custodial Inventory (CI) Program and a fee that is assessed on cross-shipped currency.

The principal role of the Federal Reserve System's cash function is to:

- Ensure institutions have sufficient supplies of currency and coin to meet public demand
- Accept and process deposits of excess and unfit currency
- Fulfill orders for currency and coin

Prior to the implementation of the Currency Recirculation Policy, these free cash services were used excessively by depository institutions (DIs). In 2004, deposits of 7.2 million bundles of fit \$10 and \$20 notes were followed or preceded by orders of the same denomination by the same institution in the same business week in the same geographic area. This practice, known as "cross-shipping," suggests that some institutions relied on Federal Reserve Banks to process a substantial amount of currency that the institutions could have otherwise recirculated to customers. This behavior caused Federal Reserve Banks to incur unnecessary processing costs. The introduction of this policy returned the Federal Reserve System to its primary cash function and reduced the societal cost of providing cash services. As the nation's central bank, the Federal Reserve System continues to play an active role in the provision of cash services to DIs, and also continues to ensure the integrity of our nation's currency as deposits and orders are processed through our Federal Reserve Banks.

## Cross-shipping

If an institution deposits fit \$10 and \$20 notes and orders the same denomination in a given Federal Reserve Bank zone or sub-zone within a single business week, the cross-shipped volume is the lesser of the institution's fit deposits or orders.

Example: In the first week of March, Bank X deposits 500 bundles of fit \$10 notes to the Boston Federal Reserve Bank. In that same week, Bank X orders 230 bundles of \$10 notes from the Boston Federal Reserve Bank. Bank X cross-shipped 230 bundles.

Fit currency is currency that the Federal Reserve Banks have deemed suitable for further circulation. The Federal Reserve Banks identify and destroy notes that are soiled, worn, or have defects such as holes, tears, and graffiti, leaving only fit notes to be packaged and returned to circulation. Federal Reserve Banks determine the number of fit notes processed from each institution's deposits as a percentage of total notes deposited by that institution during each month. Federal Reserve Banks then apply this monthly average fitness rate by Federal Reserve Bank zone or sub-zone to an institution's weekly deposits to determine how much currency it cross-shipped.

The Federal Reserve Bank's fitness standards are available on [FRBservices.org](http://FRBservices.org)<sup>SM</sup>.

The Federal Reserve Banks assess a fee to institutions for every bundle of \$10 and \$20 notes cross-shipped above a de minimis exemption level of 875 bundles of \$10 and \$20 notes combined per Federal Reserve Bank zone/sub-zone per quarter. The fee for Cross-shipping can be found on the FedCash Services fees page on [FRBservices.org](http://FRBservices.org).

The exemption is not transferable between Federal Reserve Bank zones or institutions and unused portions of the exemption do not carry forward.

The fee is standard nationally and reflects the Federal Reserve Banks' costs that vary with the quantity of currency processed. The Federal Reserve Banks review changes to those costs annually to ensure that the fee reflects the Federal Reserve Banks' costs.

FedCash cross-shipping reports via the FedLine Web® Solution provide valuable and timely information regarding your institution's cross-shipping activity online. By using this information to monitor cross-shipping activity, your institution can determine effective processes to manage and eliminate cross-shipping while potentially avoiding cross-shipping fees and supporting the efficiency of currency circulation. To sign up to receive cross-shipping reports, visit <https://www.frb services.org/financial-services/cash/fedline-web/index.html>.

## Currency Quality Policy

The Federal Reserve Banks implemented a Currency Quality Policy in conjunction with the cross-shipping fee. The Quality Policy is designed to:

- Define the threshold level of quality for each denomination that is "fit for commerce"
- Identify a framework for monitoring quality
- Specify actions the Federal Reserve Banks would take to adjust the quality of currency in circulation, should that become necessary to avoid significant inconvenience to the public or increased risk of recirculating counterfeit notes

## CI Program

The Federal Reserve Banks created a CI Program that helps to offset the opportunity costs associated with holding additional currency in vaults long enough to facilitate its recirculation.

An institution that is eligible for and participates in the CI Program is allowed to transfer currency to the Federal Reserve Bank's books, but continues to physically hold the currency within the institution's secured facility.

The CI Program is applicable only to \$10 and \$20 notes. Under the program, an institution may hold in

a CI 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.<sup>1</sup>

## Eligibility

In order to be eligible to participate in the CI Program, an applicant must:

- Be a DI. Armored carrier companies can operate CIs on behalf of DIs as subcontractors, but may not enter into an agreement with the Federal Reserve as a CI Program participant.<sup>2</sup>
- Be financially sound and in compliance with banking laws and regulations, such as the Bank Secrecy Act and Anti-Money Laundering standards
- Meet a minimum volume threshold. A DI can demonstrate that the prospective CI site meets the minimum threshold by:
  1. Cross-shipping at least 200 bundles of \$10 and \$20 notes per week at the prospective CI site in the Federal Reserve Bank zone or sub-zone<sup>3</sup>
  2. Providing deposit and payment records for the vault at which the prospective CI would be located, demonstrating that the DI recirculates at least 200 bundles of \$10 and \$20 notes weekly among the customers of that vault
  3. Demonstrating a combination of cross-shipping activity and recirculation among the DI's customers totaling at least 200 bundles of \$10 and \$20 notes in the Federal Reserve Bank zone or sub-zone<sup>4</sup>

In addition to meeting the recirculation threshold requirement, a potential CI site must comply with physical and operational security requirements to participate in the program.

<sup>1</sup> "Average daily payments" is the average dollar amount of combined \$10 and \$20 notes that a CI site paid to its customers (change orders), correspondent banks, and/or branches and the ATM network, during a prior business week, divided by five.

<sup>2</sup> Institutions that have outsourced their cash handling operations may apply for a CI at their outsourced facility, subject to the same requirements as would apply to their own vaults. The institution remains responsible for all obligations under the CI agreement. Additionally, the institution is responsible for ensuring the vendor operates the vault and the CI in accordance with the requirements of the agreement. The institution maintains responsibility for indemnifying the Federal Reserve Banks against any theft or loss.

<sup>3</sup> Once the CI site is approved, the operator is expected to no longer cross-ship these deposits, but will instead begin using the CI to recirculate them.

<sup>4</sup> Federal 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 institution's activities in the rest of the zone.

## Advantages of Federal Reserve Financial Services

As the nation's central bank, the Federal Reserve continues to play a vital role in offering cash services to depository institutions. Our core mission is to maintain confidence in U.S. Currency through well-controlled operations that meet the needs of the marketplace on a daily basis as well as in times of stress while considering the societal costs of policies and practices. Through our Reserve Banks, we ensure local financial institutions have ready access to currency (cash and coin) to meet public demand.

## Where Can I Get More Information?

For more information, please review the [Recirculation Policy FAQs](#). In addition, you can [sign up for E-Alerts](#) to receive information updates regarding the Currency Recirculation Policy and the Custodial Inventory Program.