

## Currency Recirculation Policy Frequently Asked Questions

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## **Federal Register Notice**

### **1. What's new in the Federal Register Notice of March 23, 2006 versus the draft Notice of October 2003?**

- \$1s and \$5s have been excluded from the policy.
- The *de minimis* exemption has been reduced to 875 bundles of combined \$10s and \$20s per quarter from 1,000 bundles to reflect the exclusion of \$5 notes.
- A revised Custodial Inventory (CI) Program has been approved with the following changes:
  - CI participants are required to hold one day of average daily payments in \$10 and \$20 notes on their own ledger accounts,
  - CI participants are then allowed to transfer up to the equivalent of four days of average daily payments in \$10 and \$20 notes to the custodial inventory, to be held on the ledger accounts of the Federal Reserve Banks.

### **2. Is the policy final?**

Yes. The final policy was announced in the Federal Register on March 23, 2006. For details related to this policy please visit [www.frb services.org](http://www.frb services.org), or visit the Board of Governors website at:  
<http://www.federalreserve.gov/BoardDocs/Press/other/2006/20060317/attachment.pdf>

### **3. What denominations are covered by the Recirculation Policy?**

Cross-shipping will be monitored for all denominations via cross-shipping reports, but fees will be assessed on cross-shipping activity above the *de minimis* exemption only in the \$10 and \$20 denominations, and only \$10s and \$20s will be allowed in a custodial inventory.

### **4. What important dates should I be aware of concerning the new policy?**

Applications can be submitted for a custodial inventory beginning in mid-May 2006. Cross-shipping fees will be assessed beginning in July 2007. More details will be posted to [www.frb services.org](http://www.frb services.org) in March and April. To receive broadcast messages about these postings, sign up for e-alerts at <http://www.frb services.org/HomePage/EASubsMgr.html> .

### **5. What is the intent of the new policy? Do the Federal Reserve Banks intend to get out of the cash business?**

Depository institutions (DIs) are expected to supply fit currency from their customers' deposits to meet other customers' needs before turning to Reserve Banks to obtain currency. DIs should deposit only surplus or unfit currency with Reserve Banks. As the nation's Central Bank, the Federal Reserve will continue to play an active role in the provision of cash services to DIs, particularly as an intermediary between DIs that have a surplus of fit currency and those that do not have enough to meet customer needs from an internal source.

## **Cross-shipping**

### **6. What is cross-shipping?**

Cross-shipping occurs when a DI deposits *fit* currency and orders the same denomination within the same business week (meaning Monday-Friday) and within the same Federal Reserve zone or sub-zone.

Cross-shipping is calculated as the lesser of fit deposits or orders.

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

### **7. What is the *de minimis* exemption?**

Under the new policy, the first 875 bundles of combined \$10s and \$20s that an institution cross-ships in a given Federal Reserve Bank zone or sub-zone each quarter will not be subject to the recirculation fee. This exemption is subtracted from total \$10s and \$20s cross-shipped within a Federal Reserve Bank zone/sub-zone. The exemption is subtracted from total cross-shipping in \$10s and \$20s at the end of the quarter. Any unused exemption expires at the end of the quarter and is not transferable.

This exemption is intended to address three types of situations: 1) the scale of a DI's currency business is small enough that an investment in automated fitness sorting equipment cannot be cost-justified; 2) there are modest discrepancies between the fitness determinations made by a DI and the Federal Reserve; and/or 3) to allow DIs that experience unanticipated swings in customer demand to order or deposit currency without incurring a fee.

### **8. Is the *de minimis* exemption applied monthly or quarterly?**

The Federal Reserve provides cross-shipping reports monthly, but fees and the *de minimis* exemption are applied on a quarterly basis.

### **9. What does it mean that the Federal Reserve will monitor activity at the "institution level"?**

To track cross-shipping, the Federal Reserve will aggregate *all* of the orders and deposits that a chartered financial institution makes in a Federal Reserve Bank zone or sub-zone, even if this activity occurs under different 9-digit ABAs or 13-digit endpoints. Reserve Banks expect that an institution will use currency generated from one business channel to meet the needs of another channel (e.g., use \$20s from the deposits of retail customers to fill ATM canisters rather than having the central vault deposit and the armored carrier order \$20s).

**10. Will Depository Institutions be assessed fees for cross-shipping activity even during extraordinary events, such as a natural disaster or the introduction of a new series bank note?**

Billable cross-shipping activity may be waived during extraordinary events, which might include natural disasters, new note series introductions (involving covered denominations), and specified holiday currency ordering periods. All waivers will be very short in duration, limited in scope, and will affect only the relevant denomination(s) and Federal Reserve Bank zones or sub-zones.

Waivers will be noted on cross-shipping reports, which will show the specific cross-shipping activity being waived.

**Cross-shipping Fees**

**11. What happens if my institution cross-ships?**

Under the policy, institutions will be charged a standard, national fee intended to cover the costs Federal Reserve Banks incur to process cross-shipped currency.

**12. Will my institution be subject to fees?**

A relatively small number of institutions, as many as 150 DIs, will be subject to cross-shipping fees. Typically, these institutions have relatively large deposits to and orders from the Federal Reserve Bank.

If you would like to know if your DI is likely to incur fees, sign up to receive monthly cross-shipping reports at <http://www.frbsf.org/forms/index.html>.

**13. How will the fee be determined?**

The cross-shipping fee will be based on Federal Reserve costs to receive, store, process and ship currency. It includes costs that vary with the volume of currency handled over time, including labor, equipment and supplies, as well as certain support costs like human resources. It excludes costs that the Federal Reserve Banks would incur regardless of the volume level, such as facilities, protection and other overhead costs. This fee will be the same for all Federal Reserve offices, reflecting national average costs. Reserve Banks will review the changes to these costs annually and will adjust the fee accordingly.<sup>1</sup> Changes in fees will be announced 30 days in advance of the effective date of the change.

**14. When will the cross-shipping fee go into effect?**

Fees will be assessed beginning in July 2007. You will receive your first bill for cross-shipping on your November 2007 billing statement for third quarter 2007 cross-shipping activity.

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<sup>1</sup> The fee will be recalculated and finalized at least 30 days in advance of the Federal Reserve billing customers in 2007.

## **Cross-shipping Reports**

### **15. How do I sign up to receive cross-shipping reports?**

Customers can sign up to receive a report of their institution's cross-shipping activity and the fees associated with this activity by signing up at <http://www.frbsf.org/forms/index.html>. They can complete and submit this form on-line.

### **16. How often are cross-shipping reports generated?**

Cross-shipping reports are produced and distributed monthly.

### **17. How often are cross-shipping fees billed?**

Cross-shipping fees are billed on a quarterly basis.

### **18. How are my cross-shipping fees calculated?**

Cross-shipping activity in \$10s and \$20s is aggregated throughout a quarter in each Federal Reserve Bank zone or sub-zone in which a DI operates. An 875 bundle *de minimis* exemption is applied to each Federal Reserve Bank zone (sub-zone) for the quarter. A cross-shipping fee is applied to the remaining volume in each Federal Reserve Bank zone (sub-zone).

### **19. What if I have a question about my report?**

Call your local Federal Reserve office contact or send an email to the National Cash Product Office (CPO) at [cpo.sf@sf.frb.org](mailto:cpo.sf@sf.frb.org).

### **20. Can I get reports that show selected Federal Reserve Bank zones only?**

Cross-shipping reports show national activity, broken down by Federal Reserve Bank zone and sub-zone. Recipients can excerpt information from the national reports, but the Federal Reserve doesn't currently offer a limited subscription option.

### **21. What if I want to stop receiving cross-shipping reports?**

If you would like to unsubscribe from the monthly report, please send an email to [cpo.sf@sf.frb.org](mailto:cpo.sf@sf.frb.org) with the exact email address that you used to subscribe. We encourage you to consider having someone replace you on the subscriber list so that your institution can continue to monitor your cross-shipping activity.

### **22. Can I get the reports even if I'm not subject to cross-shipping fees?**

Yes. Any Federal Reserve customer can subscribe. The reports show order and deposit totals that might be useful as a general management tool.

## **Fitness**

### **23. What is “fit” currency?**

Fit currency is currency that the Federal Reserve has deemed suitable for further circulation. The Federal Reserve identifies and destroys 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.

### **24. Where can I find the Federal Reserve’s standards for fitness?**

The Federal Reserve has worked and continues to work with the vendors of commercially available currency fitness sensors to develop specifications that will enable them to calibrate their sensors with the Federal Reserve’s standards. The standards are available at: [http://www.frbservices.org/Cash/pdf/FRB\\_Fitness\\_Standards.pdf](http://www.frbservices.org/Cash/pdf/FRB_Fitness_Standards.pdf)

### **25. How is the fitness rate applied?**

Reserve Banks will 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. Reserve Banks will 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.

**Example:** In January of 2006, Bank X’s deposits of \$10s to the Boston Federal Reserve Bank were 65% fit. In the first week of January 2006, Bank X deposited 500 bundles of \$10s to the Boston Federal Reserve Bank. Bank X deposited  $(500 * .65 = 325)$  325 bundles of fit currency. The 65% fitness rate will be applied to Bank X’s deposits of \$10s each week of January 2006.

## **Zones/Sub-zones**

### **26. What is a Federal Reserve Bank zone?**

A Federal Reserve Bank zone is a geographic area designated by the Reserve Banks. For the purposes of this policy, cash depots are considered separate zones.<sup>2</sup> For example, Salt Lake City customers are in the Salt Lake City zone.

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<sup>2</sup> A cash depot is an alternative market presence for Federal Reserve cash services. With a cash depot, the Federal Reserve contracts with a third party, usually an armored carrier, which acts as a secure collection point for Federal Reserve currency deposits from the region’s depository institutions. The depot also distributes currency orders that depository institutions have placed with the Federal Reserve. The work of counting deposits and preparing orders is done by a Federal Reserve office in another city. The Federal Reserve pays for the transportation between the Reserve Bank office and the depot operator. The operator follows strict procedures developed by the Federal Reserve.

**27. What is a sub-zone? How were they determined?**

The new policy allows Reserve Banks to establish sub-zones where there are metropolitan areas that are very large and/or very far from the nearest Federal Reserve. The Federal Reserve will monitor order and deposit activity for sub-zones separately from order and deposit activity in the rest of the Federal Reserve Bank zone. For example, a bank with activity in both the Los Angeles zone and San Diego sub-zone will have its San Diego cross-shipping calculated separately from its activity in the Los Angeles zone.

All current sub-zones are listed below. As the table indicates, they were selected based on the combination of population and distance from the Federal Reserve. The Federal Reserve Banks will annually review sub-zones and make changes as necessary.

	Distance From Fed	MSA <sup>3</sup>	Federal Reserve Processing Office	Population as of April, 2000
MSAs >1000 Miles from FRB w/ population > 250,000	2,387	Honolulu, HI	San Francisco	876,156
	1,448	Anchorage, AK	Seattle	260,283
MSAs >250 Miles & w/ population >500,000	275	Las Vegas, NV	Los Angeles	1,563,282
	270	Albuquerque, NM	El Paso	712,738
	270	Central Florida ( <i>Sarasota - Bradenton, Orlando, Tampa</i> )	Jacksonville	4,630,517
	278	South Texas ( <i>McAllen - Mission, Brownsville - Harlingen</i> )	San Antonio	904,690
	260	Charleston, SC	Charlotte	549,033
MSAs >125 Miles & w/ population >1,000,000	125	San Diego, CA	Los Angeles	2,813,833
	168	Raleigh--Durham--Chapel Hill, NC	Charlotte	1,187,941
	156	Grand Rapids, MI	Detroit	1,088,514
MSAs >100 Miles & w/ population >1,500,000	114	Indianapolis, IN	Chicago	1,607,486
	111	Columbus, OH	Cincinnati	1,540,157

**28. How will endpoints be assigned to sub-zones?**

Endpoints will be assigned to a sub-zone if their zip code is in the metropolitan area of the sub-zone, as defined by the Census Bureau.<sup>4</sup> Otherwise, they will be assigned to the zone of the Federal Reserve office that provides currency services to the endpoint.

**29. How can I change endpoint designations?**

In order to have an endpoint's Federal Reserve Bank zone or sub-zone designation changed, you must request that your local Federal Reserve cash office reclassify the endpoint and provide justification for the requested action. For example, an endpoint is

<sup>3</sup> MSA stands for Metropolitan Statistical Area

<sup>4</sup> Census Bureau Ranking Tables for Metropolitan Areas: Population in 2000, and Population Change from 1990 to 2000, number PHC-T-3, <http://www.census.gov/population/www/cen2000/tablists.html>

on the border of the sub-zone, and your armored carrier services the endpoint from a location within the sub-zone.

To have an endpoint added to or removed from a sub-zone, complete the request form available at: <http://www.frbservices.org/Cash/pdf/SubzoneChangeRequest.pdf> and return it to your local cash office.

***30. The Federal Register notice indicates that a DI that circumvents the recirculation policy will be subject to the fee. What does this mean?***

A DI is expected to recirculate fit \$10s and \$20s within its own customer network. If, in the judgment of the Reserve Banks, a DI circumvents the recirculation policy by reducing its reported cross-shipping volume without increasing recirculation, such as would be the case if it alternated the weeks in which it orders and deposits currency, the Reserve Banks will apply the recirculation fee to fit notes in such deposits.

**Custodial Inventory Program**

***31. What is the Custodial Inventory program?***

The Custodial Inventory (CI) program is a feature of the recirculation initiative whereby participating institutions can hold inventory in their vaults on the books of and on behalf of the Federal Reserve Banks.

***32. What is the potential benefit of a Custodial Inventory?***

A CI may help mitigate the opportunity costs associated with holding additional currency in vaults long enough to facilitate its recirculation.

***33. What are the eligibility requirements to participate in the Custodial Inventory program?***

The DI must:

- Be financially sound, as determined by its Administrative Reserve Bank (The Reserve Bank that has oversight authority over the DI.)
- A depository institution must meet a minimum currency volume threshold. A depository institution can demonstrate that it meets the minimum threshold in any of the following three ways:
  - 1) By cross-shipping at least 200 bundles of \$10 and \$20 notes per week at the prospective CI site in a Federal Reserve Bank zone or sub-zone.<sup>5</sup>
  - 2) By providing deposit and payment records for the prospective CI vault demonstrating that it recirculates among its customers at least 200 bundles of \$10 and \$20 notes weekly in the Federal Reserve Bank zone or sub-zone.

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<sup>5</sup> The Federal Reserve expects, of course, that once the CI site is approved, the operator will no longer cross-ship these deposits, but will instead begin using the CI to recirculate them.

- 3) By demonstrating a combination of cross-shipping activity and recirculation among its customers totaling at least 200 bundles of \$10 and \$20 notes in the Federal Reserve Bank zone or sub-zone.
- Sign the Custodial Inventory Agreement with the servicing Federal Reserve Bank, which includes the following requirements:
  - The DI must indemnify the Federal Reserve against theft or loss of Federal Reserve currency.
  - The DI must comply with Federal Reserve physical security guidelines for vaults, access control and video surveillance.
  - The DI must operate its facility in accordance with Federal Reserve guidelines for access and control.
  - The DI must segregate Federal Reserve currency from other currency
  - The DI must 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 CI operation.
- Failure to comply with any of these requirements could result in the loss of eligibility to participate in the program.

**34. Are there any costs associated with operating a Custodial Inventory?**

You may incur some additional costs in operating custodial inventories. For example, you may have to modify your facilities to physically separate currency held on the books of the Federal Reserve from the currency held on the DI's books, or to enhance physical security, perhaps by installing surveillance equipment. You may also have to enhance physical and procedural access controls and engage in additional sorting and other handling of the notes held in a CI. In some instances, you may also have to add staff to ensure the appropriate separation of duties.

**35. Will my bank be required to purchase insurance to participate in the Custodial Inventory program?**

No, you will not be required to purchase any additional insurance for the CI program. However, the Federal Reserve Bank will ask you to provide certification of insurance coverage as part of the CI application process to help determine your eligibility for the CI program.

**36. What is an inventory "cap"?**

A CI operator is required to keep one day of average daily payments in \$10s and \$20s on its own books before putting any currency into the CI. The "cap" is the maximum amount that a participating DI is allowed to store in the CI and is equal to four days of average daily payments.

**37. What are "average daily payments"?**

An "average daily payment" is the average daily dollar amount of \$10 and \$20 notes that a central money center vault paid to its commercial customers (change orders), correspondent banks and/or branches and the ATM network, but excluding deposits to the Federal Reserve during a previous five-business-day reporting period.

**Example:** In week 1 Bank X pays its customers the following amounts in \$10s and \$20s:

Monday	\$5M
Tuesday	\$3M
Wednesday	\$2M
Thursday	\$7M
Friday	\$8M

Week 1 Total: \$25M

Average Daily Payments: \$5M (\$25M/5Days) What the DI must keep on its own books

Cap in Week 3: \$20M (\$5M \* 4Days)

**38. What are the payments and vault holdings reporting requirements for a Custodial Inventory site?**

A CI must report its vault holdings and payments to its customers on a daily basis via an internet-based accounting and inventory tracking system called FedCash<sup>SM</sup>. Payments to customers are defined as payments by the CI site to its commercial customers (change orders), ATM network, correspondents, and/or its branches, but do NOT include deposits to the Federal Reserve.

**39. What will be the Federal Reserve's involvement with my Custodial Inventory Site?**

The local Federal Reserve Bank must conduct a site inspection as part of the application and acceptance process. Once the CI is established, the local Federal Reserve Bank will monitor the daily transactions of the CI and will periodically perform on-site compliance reviews of the CI to ensure that it is in compliance with the program requirements. The local Federal Reserve Bank is also the contracting party for the CI agreement.

**40. What are the audit requirements?**

The Federal Reserve reserves the right to conduct periodic unannounced audits (compliance reviews), at its expense, of the custodial inventory currency and the CI Site to determine whether it is conforming to the CI agreement and the Manual of Procedures (MOP). The MOP ensures that operations are conducted and carried out in accordance with prescribed procedures and under specific and sufficient security control conditions providing for the integrity of all operations.

**41. Can I subcontract with a third-party vendor for vault services and have the vendor be a Custodial Inventory site?**

Yes, a third-party vendor such as an armored carrier subcontracted by you to perform your vaulting services, may operate a CI on your behalf. The CI agreement is still between your institution and the Federal Reserve, and your institution will remain

responsible for all obligations under the CI Agreement, so you must make sure that your vendor operates the vault and the custodial inventory in accordance with the requirements of the agreement.

***42. How do I sign up for a Custodial Inventory?***

The application and associated CI documents will be posted to [www.frb services.org](http://www.frb services.org) in mid-April 2006. Procedures for signing up will be available at that time. Note that applications will require the name and title of the institution's official authorized officer who must be listed on the Official Authorization List (OAL) you provided to the Federal Reserve Bank. 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.frb services.org/Accounting/index.html>.

To receive information as it becomes available, sign up for e-alerts by visiting <http://www.frb services.org/HomePage/EASubsMgr.html>

***43. When can I sign up for a Custodial Inventory?***

Applications for a CI will be accepted beginning May 15<sup>th</sup>. CI applications can be submitted any time after this date.

***44. Do I sign a single agreement with the Federal Reserve or do I sign an agreement for each Custodial Inventory site?***

For each CI location, you will need to sign a separate agreement with the servicing Federal Reserve Bank in that location.

**Currency Quality**

***45. What is the Quality Policy?***

The Quality Policy will define the threshold level of quality for each denomination that is "fit for commerce;" identify a framework for monitoring quality; and specify actions the Federal Reserve Banks would take to adjust the quality of currency in circulation to avoid inconvenience to the public, or increased risk of recirculating counterfeit fit notes.

The "fit-for-commerce" standard will have two components, which may differ by denomination: 1) a minimum fitness threshold based on consumer acceptance and the technical tolerances of machines that handle currency, and 2) a maximum allowable incidence of below-threshold notes remaining in circulation. The goals of the standard will be the following:

- The public remains confident that currency supplied by depository institutions and merchants is genuine and readily usable in subsequent transactions.

- Currency in circulation is of sufficiently good condition that users can determine it is genuine by using the currency's security features.<sup>6</sup>
- Currency in circulation is usable in automated currency handling equipment.<sup>7</sup>
- There is an appropriate balance between the public's note handling costs and Reserve Banks' costs to maintain the fit-for-commerce standard.

**46. When will the Quality Policy go into effect?**

The Federal Reserve Banks will implement a currency quality policy before the cross-shipping fee takes effect in July 2007.

**Federal Reserve's Operating Circular 2 (OC2)**

**47. Will OC2 be updated?**

Yes. OC2 will be updated to reflect changes resulting from the recirculation policy.

**48. When will the revised OC2 be available to customers?**

The revisions to OC2 will be published on [www.frbservices.org](http://www.frbservices.org) in mid-April.

**Miscellaneous**

**49. Will all Federal Reserve Districts implement this policy at the same time?**

Yes, this is a national policy, and all Districts will implement the policy concurrently.

**50. How will the Federal Reserve ensure that the policy is applied consistently throughout the country?**

In order to ensure that this policy is applied consistently throughout the country, the Federal Reserve System is managing its implementation centrally.

**51. Is the UCAP policy changing along with implementation of the Currency Recirculation Policy?**

No. However, it is likely that the recirculation policy will lead to a reduction in the number of times a week that a DI makes deposits to or orders from the Federal Reserve because the DI will recirculate more currency through its customers. Local UCAP fees will still exist; there will be no national fee at this time.

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<sup>6</sup> The public's ability to recognize the security features of currency can diminish if notes are heavily soiled, torn, worn, or crumpled.

<sup>7</sup> Automated currency handling equipment includes, for example, vending machines, fare card machines, and currency sorting machines.

**52. Who can I contact if I have further questions?**

If you have further questions, please contact your local Federal Reserve Bank cash contacts. Contact information is available at

<http://www.frbservices.org/Cash/CashCustSupport.html>