



# Customer Implementation Guide



## The Federal Reserve Bank's Implementation Guide for the Custodial Inventory (CI) Program

**The Federal Reserve Bank's Implementation Guide for the Custodial Inventory (CI) Program provides helpful information for organizations applying for a CI. This guide will serve as your roadmap to facilitate timely processing of your CI application including providing you with various implementation resources to help make the process as efficient as possible. Along with the high-level descriptions of each phase of the process, you will find information on what you can do to help expedite your application.**

## **Policy Overview**

Pursuant to the Federal Reserve Currency Recirculation Policy announced on March 17, 2006, the Federal Reserve Banks have created a Custodial Inventory Program to help offset the opportunity costs associated with holding additional currency in your vaults to facilitate its recirculation. By participating in the Custodial Inventory Program you will be allowed to transfer currency to the Federal Reserve Bank's books, but continue to physically hold the currency within your secured facility. You may transfer into the CI four days of your site's average daily payments in \$10 and \$20 notes after you have satisfied the one-day minimum holding requirement in \$10 and \$20 notes on your own books.

For more information about the policy revisions please visit [www.frbservices.org/Cash/](http://www.frbservices.org/Cash/).

## **Important Dates**

May 15, 2006	Federal Reserve Banks begin accepting applications
June 2006	E-Learning Tool for FedCash <sup>SM</sup> available
July 2006	First CI sites "Go Live"

## **Eligibility**

In order to be eligible to participate in the Custodial Inventory Program you must:

- Be a depository institution. Only depository institutions are eligible to participate in the Custodial Inventory Program.<sup>1</sup>
- Be financially sound and in compliance with banking laws and regulations.
- Meet a minimum volume threshold. Initially, you can demonstrate that your site 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 the Federal Reserve Bank zone or sub-zone at the time of application.<sup>2</sup>
  - 2) By providing deposit and payment records for the vault at which the prospective CI would be located demonstrating that your institution recirculates at least 200 bundles of \$10 and \$20 notes weekly among the customers of that vault.
  - 3) By demonstrating a combination of cross-shipping activity and recirculation among your institution's customers totaling at least 200 bundles of \$10 and \$20 notes in the Federal Reserve Bank zone or sub-zone.
- Provide information to enable the Federal Reserve Bank to validate your volume eligibility.
- Sign the CI Application Form and Agreement indicating your agreement to the terms and conditions of Operating Circular 2, the Appendix and the CI Manual of Procedures.
- Pass a site inspection conducted by the Federal Reserve Bank and meet minimum physical and operational security standards.

<sup>1</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 Bank against any theft or loss.

<sup>2</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.

## Application Process

Listed below are the steps in the application process, along with actions you should take to facilitate smooth and timely handling of your application. Information resources are available at [www.frbservices.org](http://www.frbservices.org) and are listed at the end of this guide.

### STEP 1:

Applications will be accepted beginning May 15, 2006.

#### *Customer Action:*

- Read the new version of Operating Circular 2 located at [www.frbservices.org/OperatingCirculars](http://www.frbservices.org/OperatingCirculars).
- Read the Custodial Inventory Manual of Procedures.

### STEP 2:

Applications require the signature, name and title of an institution's authorized officer listed on the Official Authorization List (OAL) that you filed with the Federal Reserve Bank with which your institution maintains its Reserve Account. A current OAL is critical to indicate the individuals you have authorized to transact business on behalf of your Institution. An application will not be accepted if we cannot authenticate the signer of the application. If the signature on the application is not on your Bank's OAL, a Federal Reserve Customer Contact Center (CCC) representative will work with you to help resolve the issue.

#### *Customer Action:*

- Ensure that you have an OAL on file with the Federal Reserve.  
If you do not have an OAL on file with the Federal Reserve, you must submit one in order for your application to be processed.
- The individual who will sign the CI Application Form and Agreement on behalf of your Institution is listed on your OAL.  
You can work with your local Federal Reserve Bank to determine whether the person who will be signing the CI Application and Agreement Form is on your Bank's OAL. If not, then you will need to submit an amended OAL to the Federal Reserve Bank. An application will not be processed if the signature on your CI application is not on your Bank's OAL.

### STEP 3:

The Federal Reserve will perform a completeness review.

#### *Customer Action:*

- Completely fill out all sections of the CI application
- Answer question #5 on the CI application, regarding how you intend to use a CI to support recirculation, satisfactorily.

### STEP 4:

Once your application has passed a completeness review, a Safety and Soundness and Compliance Review will be conducted by the Federal Reserve, based on the latest examination results from your institution's federal banking supervisory agency.

#### *Customer Action:*

No action is required on your part.

### **STEP 5:**

The Federal Reserve Bank will schedule an on-site inspection of your facility. This site inspection will confirm that your facility has the appropriate security and controls in place, as noted on your CI application, and will generally be completed within 30 calendar days of the Federal Reserve Bank contacting you.

You must also provide four consecutive weeks of payments data in \$10 and \$20 notes, using a template that the Federal Reserve Bank will give you when you are contacted to schedule the on-site inspection. This information will be used to validate that you meet the 200 bundle per week eligibility criterion. This template is to be returned to the Federal Reserve Bank during the time of the physical site inspection.

#### *Customer Action:*

- Comply with the Site Security Self Evaluation as outlined in the CI Application Form. If you are not in compliance, fully explain all exceptions.
- Provide two or more internet-connected PCs at the vault where you anticipate CI inventory will be held.
- Have the ability to provide daily customer payments information in \$10 and \$20 denominations for the vault where you anticipate CI inventory will be held.

### **STEP 6:**

Assuming your institution passes steps 4 and 5, you will be notified that your application has been accepted and given the information necessary to plan for the implementation of the CI at your chosen location.

#### *Customer Action:*

No action is required on your part.

### **STEP 7:**

Your local Federal Reserve Bank will work with you to ensure that the appropriate people within your organization are trained on the use of the CI Manual of Procedures and the FedCash application and will schedule a “Go Live” date. The Federal Reserve Customer Contact Center will contact you regarding FedCash setup. FedCash is the web-based vault inventory control system that is used to record and track all CI vault transactions.

#### *Customer Action:*

- Have one or more individuals signed up as End User Authorization Contacts (EUAC) that are authorized to set up FedCash users for the ABA number under which the CI will be conducting business.
- Check out the FedCash E-learning tool, which will help you become familiar with the FedCash application, as soon as it becomes available on [www.frbservices.org](http://www.frbservices.org) in June 2006.
- Sign up for e-alerts to be notified as soon as the E-learning tool and other program updates become available.

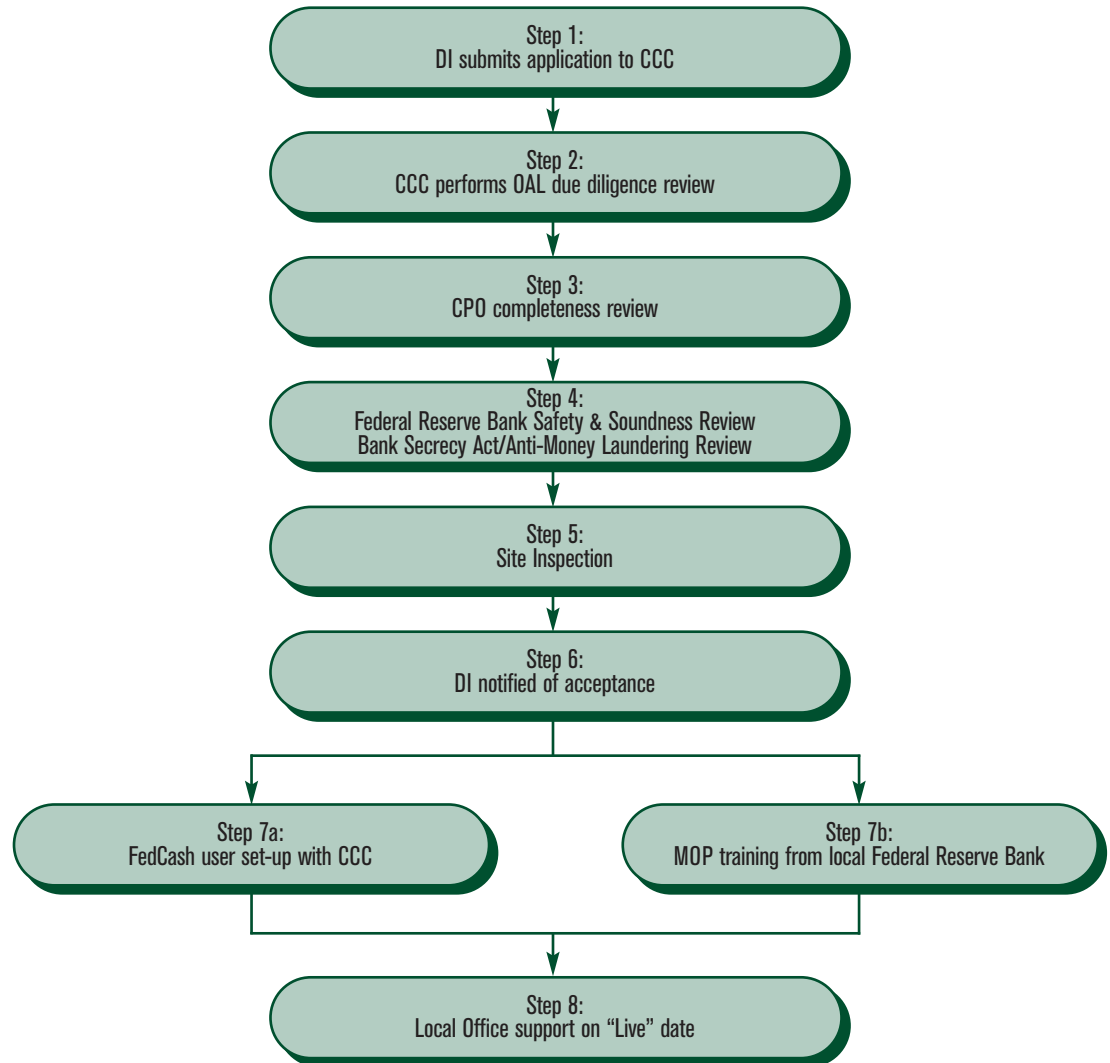
### **STEP 8:**

Go Live! Your local Federal Reserve Bank representative will be on site for technical support on this day.

#### *PLEASE NOTE:*

- Applications will be processed in the order received. You must submit a separate application for each CI site that you wish to bring up.
- At any point during this process you can call your local Federal Reserve Cash contacts or email the National Cash Product Office (CPO) at [cpo.sf@sf.frb.org](mailto:cpo.sf@sf.frb.org) to determine the status of your application.

## Application Process Flow



## **E-Learning Tool**

The Federal Reserve Banks will provide you with an E-learning tool to help you familiarize yourself with the FedCash application prior to your “Go Live” date. FedCash is the web-based vault inventory control system that is used to record and track all CI vault transactions.

The tool will help you learn how to take full advantage of FedCash by instructing you in the following areas:

- Subscriber Roles
- Initial Setup
- Daily Operations
- After Hours Processing Activities
- Corrections
- Browses, Queries, and Reports

## **Training**

Your local Reserve Bank will coordinate training for your staff on the Manual of Procedures (MOP) to ensure CI representatives are fully knowledgeable of the policy and procedural expectations of the program. This training will include introducing CI staff to the various exhibits of the MOP. The training session is approximately four hours and may be held at the Reserve Bank or at the CI site depending upon the availability of resources.

## **What a Custodial Inventory Participant Can Expect After Joining the Program**

Once an institution has established a CI, the Federal Reserve Bank will monitor the daily deposits to and withdrawals from that inventory and periodically perform unannounced site reviews to verify compliance with the program requirements, including volume thresholds, minimum holdings and inventory cap requirements. The institution must allow full access by Federal Reserve Bank or other authorized entities for unannounced audits of any aspect of the CI operation.

A CI site must report its vault holdings and payments to its customers on a daily basis via FedCash. Payments to customers are defined as payments by the CI site to the institution's cash customers, including commercial customers (change orders), correspondent banks and/or branches, the institution's own branch network and/or the ATM network, but excluding deposits to the Federal Reserve.

A CI site is responsible for completing a monthly unannounced management inventory to ensure that actual CI vault inventory matches the volume inventory reported in FedCash. This monthly inventory verification must be completed electronically via FedCash. In addition to this monthly process, you must complete an annual certification of the Manual of Procedures. You must certify that (a) your Institution has conducted Unannounced Management Audits of the CI Operation at the CI Site at least monthly and (b) your Institution is in compliance with all requirements of the Manual of Procedures and Appendix 1 (Custodial Inventory Program) to Operating Circular 2.

## **Implementation Resources**

### **CI Application Form/Policy Details:**

*[www.frbservices.org/Cash/CustodialInventoryProgram/](http://www.frbservices.org/Cash/CustodialInventoryProgram/)*

### **OAL Form:**

*<http://www.frbservices.org/Accounting/>*

### **EUAC Form:**

*<http://www.frbservices.org/Electronic-Access/pdf/FormEUAC.pdf>*

### **E-alert Subscription:**

*<http://www.frbservices.org/HomePage/EASubsMgr.html>*

### **Submit CI Application to:**

Customer Contact Center (CCC) Address:

P.O. Box 9130

Minneapolis, MN 55480-9130 OR

Or via fax to: (800) 660-7856

P.O. Box 219416

Kansas City, MO 64121

Or via fax to: (800) 485-6089

### **Cash Product Office**

*[cpo.sf@sf.frb.org](mailto:cpo.sf@sf.frb.org)*

### **Local Federal Reserve Bank Cash Contacts:**

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

### **FedCash E-Learning Tool**

*[www.frbservices.org](http://www.frbservices.org) (Coming in June 2006)*