

Operating Circular 2 (OC 2) and Cash Services Manual of Procedures (CSMOP)

Summary of Key Changes

Effective 1/4/2016

Effective January 4, 2016, the Federal Reserve Banks are amending Operating Circular 2 (OC-2) *Cash Services* and the Cash Services Manual of Procedures (CSMOP). As amended, OC-2 and CSMOP will require depository institutions (DIs) engaged in international currency activity (i.e., obtaining currency for shipment between a physical location inside the United States and a physical location outside the United States) to consult with their Administrative Reserve Bank (ARB) about applicable requirements, including whether they are required to enter into a contract with a Reserve Bank relating to this activity. Additionally, certain updates to OC-2 and CSMOP apply to domestic cash services and will bring procedures, terms and definitions up to date and align procedural requirements of the Federal Reserve Banks with those of the Bureau of Engraving and Printing (BEP) and the United States Mint (U.S. Mint).

Key changes to be made include the following:

OC 2 Changes

Section 1.0 Scope

- Added a provision that a contract regarding international currency activity may also contain provisions that apply to an institution's cash transactions with a Federal Reserve Bank. In the event of any conflict between OC-2, CSMOP, and the international contract, the contract will control

Section 2.13.3 Defined Terms

- Here and throughout the OC-2, changed "Mutilated Coin" term to "Bent or Partial Coin," consistent with the U.S. Mint's recent change to coin terminology

Section 2.16 Defined Terms

- Updated the definition of "Endpoint" to be consistent with the Uniform Cash Access Policy (UCAP). An armored carrier facility used by the DI to provide cash services can be considered an endpoint

Section 3.1 Requirements for Obtaining and Receiving Cash Services

- Added a provision requiring DIs that engage in transactions involving the shipment of currency between a physical location inside the United States and a physical location outside the United States to contact their ARB concerning applicable requirements,

which may include executing a contract with the ARB or another Federal Reserve Bank regarding this international currency activity

Section 4.1 Cash That May Be Deposited

- Consistent with the BEP practices, added a statement on accepting deposits of mutilated currency that show a pattern of intentional mutilation or an attempt to defraud the United States

Section 4.3 Mutilated Currency

- Specified a BEP department that handles mutilated currency requests

Section 5.1 Cash Provided

- Clarified that a contract regarding international currency activity may also contain information on how the Federal Reserve Banks fill orders for currency

Section 6.1 Notice of Claim

- Extended timeframe for DIs to file coin difference claims from fifteen to twenty business days, to acknowledge changes in how coin is processed today by armored carriers (i.e., bulk processing vs. standard Fed bag processing)

Appendix I Custodial Inventory - Section 5.3 Right to Audit

- Removed a requirement for the Custodial Inventory (CI) operator to at least annually provide to the servicing Reserve Bank schedules and summaries of audits of the CI vault performed by other parties
- Removed a requirement for the CI operator to notify the servicing Reserve Bank of any regulatory examinations taking place and the name of the examiner

CSMOP Changes

Section 1.0 Introduction

- Added a provision indicating that a contract regarding international currency activity may also contain provisions that apply to an institution's cash transactions with a Federal Reserve Bank. In the event of any conflict between OC-2, CSMOP, and the international contract, the contract will control.

Section 3.1 Requirements for Obtaining and Receiving Cash Services

- Added a statement that no later than 12 months following a merger or acquisition, the surviving DI must determine which of its surviving endpoints will be designated to receive Cash Services

Section 3.2 UCAP – Frequency of Orders/Deposits

- For consistency with the UCAP, revised what is considered a high-bundle threshold for DIs to receive additional free cash access. A DI may receive additional free service each business week for each of the 10 endpoints for any deposit or order that *exceeds* the aggregate high bundle threshold of 20 bundles (as opposed to *meets or exceeds*).

Section 3.6 Third Party Arrangements

- Added the Coin Exchange Program as a potential option for coin distribution in specific markets

Section 4.2 Preparing a Currency Deposit

- For consistency with the OC-2, clarified that when preparing for piece counting of deposits to the Federal Reserve Banks, the DI is responsible for piece counting, verifying for authenticity, and properly assembling *and packaging* their currency deposit (added "*and packaging*")
- For clarity regarding international service levels, added a statement that international currency deposits are only accepted in standard bundle increments
- Clarified requirement on how the paper bands must be arranged within a bundle. The new CSMOP requires that for all denominations (not just \$1-\$20), bands within the bundle must be arranged so that all bank stamps are facing in one direction.
- Clarified the requirement for including a deposit document, adding a reference to electronic deposit notification. Whatever the format, paper or electronic, the Federal Reserve requires a deposit document.

Section 4.4 Process for Handling Contaminated Currency

- Removed additional detail around the cause of contamination, burnt currency not being considered contaminated, as well as guidance for depositing large quantities of contaminated currency following a natural disaster
- Added verbiage to address procedures for depositing contaminated currency from international depositors

Section 4.5 Process for Handling Mutilated Currency

- Updated shipping methods per OCID #9 which now allows institutions to use a courier (UPS, FedEx, etc.) in addition to the United States Postal Service when shipping to the BEP

Section 4.6 Approved Packaging for Coin Deposits

- Updated language for bag handle and material durability. The handle and material must meet a functional requirement provided *or the equivalent in strength and durability* (language in italics added)

Section 4.10 Handling Mutilated Coin

- Here and throughout the CSMOP, changed "Mutilated Coin" term to "Bent or Partial Coin," consistent with the U.S. Mint's recent change to coin terminology

Section 5.2 Submitting Currency Orders

- Updated standard units for ordering currency to include standard international deposits
- Added a bullet that international orders for currency must be placed in 16 bundle increments

Section 5.4 Verification

- Updated language to reinforce the dual control requirement for DIs that want to file a difference claim

Section 5.5 Submitting Coin Orders

- Updated the standard coin order increments chart to reflect that Presidential \$1 coins no longer have separate ordering increments
- Updated the coin order chart to include International Unit Dollar Amounts

Section 5.8 International Coin Orders

- Added a new section which includes requirements for requesting international coin orders

Section 6.1 Filing a Difference Claim in Currency Orders Received

- Removed the language added in error during the last revision requiring DIs to include the Federal Reserve Bank Difference Advice and strap image when submitting a claim for a difference found in a currency order. Difference Advice and strap image refer to deposit differences.

Section 6.2 Differences Found in Coin Orders Received

- Extended timeframe for DIs to file coin difference claims from fifteen to twenty business days, to acknowledge changes in how coin is processed today by armored carriers (i.e. bulk processing vs. standard Fed bag processing)
- Included a reference to the Coin Exchange Program to acknowledge that the Reserve Banks will not honor any difference claims submitted by a third party, including differences arising from participation in the Coin Exchange Program

Section 6.3 Disputing a Deposit Adjustment

- With the introduction of the Deposit Difference Report via FedLine[®] access solutions functionality, clarified the method for the Federal Reserve Banks to notify the DIs of

differences found in their deposits. The Federal Reserve will provide the DI with a notification in a manner of its choosing.

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