THE FEDERAL RESERVE
Financial Services

The Federal Reserve Banks' Implementation Guide for the FedCash® Services Custodial Inventory Program

July 2025

Table of Contents

Purpose of this Document

The Federal Reserve Banks' Implementation Guide for the FedCash Services Custodial Inventory (CI) Program provides helpful information for organizations applying to be part of the CI Program. This guide will serve as a roadmap to facilitate timely processing of CI Program applications and includes various implementation resources to help make the process as efficient as possible. Below are high-level descriptions of each phase of the process.

Policy Overview

Pursuant to the Federal Reserve Banks' Currency Recirculation Policy implemented on March 17, 2006, the Federal Reserve Banks have created a CI Program to help offset the opportunity costs associated with holding additional currency in depository institution vaults and to facilitate its recirculation.

By participating in the CI Program, a depository institution will be allowed to hold inventory in its vaults, but on the books of a servicing Federal Reserve Bank. A depository institution may transfer into the CI four days of the site's average daily payments in $10 and $20 notes after satisfying the one-day minimum holding requirement in $10 and $20 notes in the depository institution's books.[1]

For more information about the policy revisions, please visit the [FedCash Services Currency Recirculation Policy page].

Eligibility for the CI Program

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

- Be a depository institution. Armored carrier companies can operate CIs on behalf of depository institutions as subcontractors, but may not enter into an agreement with the Federal Reserve as a CI Program participant.[2]
- Be financially sound and in compliance with banking laws and regulations, such as the Bank Secrecy Act and Anti-Money Laundering standards.

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[1] "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.

[2] 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 that 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.

- Meet a minimum volume threshold. A depository institution 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.[3]
    2. Providing deposit and payment records for the vault at which the prospective CI would be located, demonstrating that it 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 its customers totaling at least 200 bundles of $10 and $20 notes in the Federal Reserve Bank zone or sub-zone.[4]

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.

Application Process

To apply for the CI Program, a depository institution must sign the CI Application Form and Agreement indicating its agreement to the terms and conditions of Operating Circular 2 Appendix 1 (CI Program), and the CI Manual of Procedures.

Listed below are the steps that should be followed to facilitate the smooth and timely handling of the CI Application Form and Agreement. Additional resources are available at FRBservices.org® and at the end of this guide.

At any point during this process, depository institution representatives may contact their local Federal Reserve Cash contacts or email FedCash Services at sf.ci@sf.frb.org to determine the status of their application.

Step 1: Depository Institution Obtains CI Application Form and Agreement

Customer Actions:

- Access the CI Application Form and Agreement
- Read Operating Circular 2
- Read the CI Manual of Procedures

[3] Once the CI site is approved, the operator is expected to no longer cross-ship these deposits. Instead, they will begin using the CI to recirculate them.

[4] Federal Reserve Banks have established “sub-zones” for large metropolitan areas that are located at a significant distance from the nearest Federal 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.

Step 2: Depository Institution Ensures Official Authorization List is On File

Having a current Official Authorization List (OAL) on file is critical, as it indicates which individuals are authorized to transact business on behalf of a depository institution. The Federal Reserve will not accept applications for the CI Program if it cannot authenticate the signer of the application.

For help regarding the OAL, please visit the "Accounting Services" section on the Contact Us page on FRBservices.org.

Customer Actions:

- Ensure that an OAL is on file with the Federal Reserve. If an OAL is not on file with the Federal Reserve Banks, depository institutions must submit one in order for their CI Program application to be processed.
- Determine whether the person who will sign the CI Application Form and Agreement is on the depository institution's OAL. The CI Application Form and Agreement requires the name, title, and signature of a depository institution's official authorizer.

Step 3: Depository Institution Completes and Submits the CI Application Form and Agreement

Please note that depository institutions must submit a separate application for each prospective CI site.

Customer Actions:

- Completely fill out all sections of the CI Application Form and Agreement
- Submit the CI Application Form and Agreement to the Support Center at ccc.bankservices@kc.frb.org.

Step 4: The Federal Reserve Reviews the CI Application Form and Agreement

The Federal Reserve will process CI Application Forms and Agreements in the order they are received.

Federal Reserve Action:

The Federal Reserve will perform a completeness review of the CI Application Form and Agreement.

Customer Action:

None required.

Step 5: The Federal Reserve Conducts a Financial Safety and Soundness Review

Federal Reserve Action:

Once the CI Application Form and Agreement has passed a completeness review, the Federal Reserve Bank will conduct a financial safety and soundness review based on the latest examination results from the depository institution's federal banking supervisory agency.

Customer Action

None required.

Step 6: The Servicing Federal Reserve Bank Schedules an On-Site Inspection

Federal Reserve Actions:

- The servicing Federal Reserve Bank will schedule an on-site inspection of the prospective CI facility.
  - The site inspection will confirm that the facility has the appropriate security and controls in place, as noted on the CI Program application.
  - The inspection will generally be completed within 30 calendar days of the Federal Reserve Bank contacting the depository institution to schedule it.
- When the on-site inspection is scheduled, the servicing Federal Reserve Bank will provide a template that allows the depository institution to report four consecutive weeks of payments data in $10 and $20 notes. The Federal Reserve Bank will use this information to validate that the depository institution meets the 200 bundle per week eligibility requirement.

Customer Actions:

- Prior to the physical site inspection, submit the completed template of payments data to the Federal Reserve via email.
- Be prepared to comply with the Site Security Self-Evaluation as outlined in the CI Application Form and Agreement. If the depository institution is not in compliance, all exceptions must be fully explained.
- Ensure that two or more internet-connected PCs will be available at the vault where the depository institution anticipates holding the CI.

Step 7: The Federal Reserve Completes the On-Site Inspection

Step 8: Notification of Acceptance

Federal Reserve Actions:

- If the depository institution passes steps 5-7, the servicing Federal Reserve Bank will notify the depository institution of its acceptance.
- The Federal Reserve Bank will provide the depository institution with the information necessary to plan for the implementation of the CI at the chosen location.

Customer Action:

None required.

Step 9: The Federal Reserve Provides Training to CI Operators

The servicing Federal Reserve Bank will work with the depository institution to ensure that the appropriate people within the organization are trained on the use of the CI Manual of Procedures and the CI module within the FedCash Services application via the FedLine Web® Solution. The CI module is the Federal Reserve Banks' web-based vault inventory control system used to record and track all CI transactions.

Federal Reserve Actions:

- The Support Center will contact the depository institution to set up the CI module.
- The servicing Federal Reserve Bank will coordinate training for CI management and staff on the CI Manual of Procedures to ensure that they are fully knowledgeable about the policy and procedural expectations of the CI Program.
    - This training will include introducing CI operators to the various exhibits of the CI Manual of Procedures.
    - The training session takes approximately four hours to complete and is usually held at the CI site.
- The servicing Federal Reserve Bank will work with the depository institution to schedule a "go live" date for its participation in the CI Program.

Customer Actions:

- Have one or more individuals designated as End User Authorization Contacts (EUACs) that are authorized to set up the CI module for users with an RTN (a.k.a. ABA number), or Customer Identification Number for subcontracted CIs, under which the CI will be conducting business.
- Access the Training Center in FedLine® Home for guides on how to use the CI module and other important information.

Step 10: Depository Institution Goes Live as a CI Facility

A representative from the servicing Federal Reserve Bank will be on site at the CI for technical support on the “go live” day.

What CI Program Participants Can Expect

Federal Reserve Bank Monitoring and Site Reviews

Once an institution is part of the CI Program, the servicing Federal Reserve Bank will monitor the daily deposits to and withdrawals from the CI and will also periodically perform unannounced site reviews to verify compliance with the CI Program requirements, including volume thresholds, minimum holdings and inventory cap requirements.

Institutions must agree to 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.

Daily Reporting

A CI site must report its vault holdings and payments to its customers on a daily basis through the CI module within the FedCash Services application via the FedLine Web Solution.

Payments to customers are defined as payments by the CI site to the institution’s cash customers, including commercial customers (change order), correspondent banks and/or branches, and the institution’s own branch network and/or the ATM network. Payments to customers excludes deposits to the Federal Reserve.

Monthly Inventory Verification

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 the CI module. This monthly inventory verification must be completed electronically through the CI module within the FedCash Services application via the FedLine Web Solution.

CI Implementation Resources

Custodial Inventory Program Application Form and Manual of Procedures

Recirculation Policy FAQ

Official Authorization List Form

FedLine Solutions Forms

Submit CI Application Form and Agreement to:
ccc.bankservices@kc.frb.org

Federal Reserve Bank Cash Contacts by District