

FedCash[®] Services Custodial Inventory Program

In 2006, the Board of Governors of the Federal Reserve System implemented the Currency Recirculation Policy. The policy is intended to reduce overuse of central bank services, motivate recirculation best practices, and reduce the societal cost of providing fit currency. One component of the policy is a Custodial Inventory (CI) Program that provides depository institutions (DIs) an incentive to hold currency in their vaults in order to meet customer demand and increase currency recirculation.

A CI enables an institution to transfer currency to the Federal Reserve Banks' books, but physically hold the currency within its secured facility, thereby reducing the investment cost of holding currency long enough to recirculate it to customers. 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.¹

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 participant²
- 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-zone³
 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-zone⁴

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.

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 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.

³ 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.

⁴ 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.

Getting Started (or Application Process)

If an institution meets the eligibility requirements, it can begin the application process to establish the CI Program. In order to apply for a CI site, the institution will need to sign a CI Application Form and Agreement with the Federal Reserve to indemnify the Federal Reserve Banks against theft or loss.

Visit the CI page for an application, sign-up procedures, and associated CI documents. In submitting an application, a DI commits to abide by the terms of the CI Program, assuming the DI is approved to participate. Therefore, applications require the name and title of a DI's official authorizer who must be listed on the Official Authorization List (OAL) on file with the Federal Reserve Banks. A current OAL is critical as it serves as the foundation for establishing a DI's authority to engage in business with the Federal Reserve Banks. An OAL identifies the individuals who have the authority to act on behalf of a DI with respect to the operation of the DI's account at the Federal Reserve Bank and use of Federal Reserve Bank services. An application will not be accepted without this information.

To complete an OAL or to add authorized individuals to the OAL, visit the Accounting Services site.

Institutions that have outsourced their cash handling operations also may apply for the CI Program. Such applications will be subject to the same eligibility and physical security requirements as bank-operated cash operations and will follow the same procedures. The CI agreement is still between the institution and the Federal Reserve, and 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 and maintains responsibility for indemnifying the Federal Reserve Banks against any theft or loss.

Operations and Site Requirements

In addition to CI eligibility requirements, an institution must meet both operations and site

requirements. CI Program participants will be required to abide by Federal Reserve Bank-specified procedures as outlined in the CI Manual of Procedures (MOP), including mandated segregation of Federal Reserve Bank inventories from other holdings. Institutions must meet operations and site requirements to participate as follows:

- Pass a site inspection conducted by the Federal Reserve Banks and meet minimum physical and operational security standards including closed circuit television (CCTV) camera coverage and/or other methods of monitoring access to areas where CI holdings are stored or handled.
- Keep one day of average daily payments in \$10 and \$20 notes on its own books before transferring currency into the CI.
- Segregate Federal Reserve currency from other currency on hand

What a CI Participant Can Expect

Once an institution has established a CI, the servicing Federal Reserve Bank will monitor the daily deposits to and withdrawals from the CI and will periodically perform site reviews to ensure compliance with program requirements. The institution 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.

An established CI site must report its vault holdings and payments to customers on a daily basis through CI via the FedLine Web[®], Solution, a web-based vault inventory control system that is used to record and track all CI transactions.

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 their branches, the institution's own branch network and/or the ATM network, but excluding deposits to the Federal Reserve Banks.

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.

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