

depository institutions to assess the value of participating in the program. To initiate the proof-of-concept program, Reserve Banks would select 15 depository institution sites from applications submitted via the Internet. The Board estimates that it would take a depository institution, on average, 12 hours (ranging from 8 and 16 hours) to complete and submit an application. The application would request information such as: A description of the vault and vault security; contact person information; prior year's loss history for the proposed vault; volume, amount, and daily averages of vault holdings; personal computer availability and Internet access; and certification of insurance coverage. After being accepted into the proof-of-concept program, depository institutions would be required to use an Internet-based inventory tracking system that would take each institution approximately 15 minutes per day (excluding weekends and holidays) to track cash inventory.

The Board would begin to evaluate the results of the proof-of-concept program after six months of operation. Based on the public comments and the results of the proof-of-concept, the Board would determine whether to implement a permanent custodial inventory program.

If the Board implements a permanent program, the 15 proof-of-concept participants would have the opportunity to continue operating custodial inventories, and Reserve Banks would select up to 135 additional sites. These new participants would be required to submit an application and, if accepted into the program, use the Internet-based inventory system.

The Board will review and, if needed, revise the following burden estimates after the first six months of the proof-of-concept program:

(1) *Number of proof-of-concept program sites:* 15.

(2) *Number of custodial inventory sites:* 150.

(3) *Response time:* 12 hours per application submitted; 15 minutes per day for inventory tracking; estimated total annual burden: 11,175 hours.

The Board requests comment on how many depository institutions will complete and submit the application to partake in the proof-of-concept program or the custodial inventory program, including:

(1) Whether the proposed collection of information is necessary for the proper performance of the Board and Reserve Banks' functions; including whether the information has practical utility;

(2) The accuracy of the Board's estimate of the burden of the proposed information collection, including the cost of compliance;

(3) Ways to enhance the quality, utility, and clarity of the information to be collected; and

(4) Ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology.

6. Comments

The Board requests comments on all aspects of the proposed recirculation policy as described below, on the benefits and drawbacks of implementing it, and, in particular, on the following questions:

(1) How effective will the proposed custodial inventory program and the recirculation fee be in reducing or eliminating cross-shipping? What are the major benefits and drawbacks of custodial inventories and the recirculation fee?

(2) Are there effective alternate approaches that the Board should consider to increase depository institutions' recirculation of currency?

(3) Are there factors not described in this notice that would affect a depository institution's decision to pay a recirculation fee or undertake greater recirculation of currency within its organization? What are the benefits and drawbacks of allowing a *de minimis* exemption of 1,000 bundles of currency per depository institution per quarter for a zone or sub-zone? Is there an alternative approach to administering the *de minimis* exemption that would address identified drawbacks and still achieve the intended objectives of reducing the burden of complying on depository institutions with small currency operations while ensuring that most cross-shipping activity is governed by the policy?

(4) Under what circumstances would it be reasonable and practical for depository institutions to adopt lower-cost alternatives to the recirculation fee, such as having tellers manually sort currency at the point of receipt, paying currency to customers without fitness sorting when a range in the quality of notes is acceptable to customers, or obtaining currency processing services from other local institutions or armored carriers able to offer prices that reflect economies of scale?

(5) Are there alternative approaches that could be used to improve the efficiency of handling one-dollar notes other than applying the cross-shipping fee? What savings would an institution

expect to realize from these alternative approaches?

(6) What costs would a depository institution anticipate incurring for operating a custodial inventory? How should Reserve Banks calculate the cap on the amount of currency that a depository institution may deposit in a custodial inventory? How many bundles of currency should Reserve Banks require a depository institution to recirculate per week to qualify for a custodial inventory?

(7) What would be the effects of the program, if any, on depository institutions' customers, on armored carriers, or on other parties?

7. Proposed Federal Reserve Cash Recirculation Policy

The Board proposes the following policy to promote depository institution recirculation of currency.

Policy

Reserve Banks' role in the distribution of currency is to make available to depository institutions a supply of genuine (new and fit) currency sufficient to meet the public's cash demand. Reserve Banks remove unfit notes from circulation and act as intermediaries between depository institutions, accepting notes from those that have a surplus and providing currency to those with a shortfall. Depository institutions act as intermediaries to recirculate fit currency among their customers. Cross-shipping occurs when an institution deposits fit currency and orders currency of the same denomination, above the *de minimis* exemption, within the same week, in a Reserve Bank zone or sub-zone.

Custodial Inventory Program

The Board proposes to establish a custodial inventory program to promote currency recirculation by reducing depository institutions' opportunity costs for holding currency. Participants in the custodial inventory program would hold, in their vaults, currency on the books of the Reserve Banks that they otherwise might have shipped to, and then ordered from, Reserve Banks during a business week. This program would include the following elements.

(1) Only depository institutions are eligible to participate in the custodial inventory program; however, depository institutions that outsource their currency vault(s) to a third party would also be eligible.

(2) A depository institution must be able to recirculate among its customers a substantial volume of eligible denominations of currency in the zone