

or sub-zone of a proposed custodial inventory site. If the Board approves implementation of a permanent custodial inventory program, Reserve Banks will determine the minimum bundles of currency that depository institutions must be able to recirculate on a weekly basis to qualify for the custodial inventory program. Thereafter, Reserve Banks will review annually the minimum bundles required for depository institution participation in the custodial inventory program.

(3) Depository institutions may deposit into custodial inventories notes that they sort by denomination, count, and package in bundles. Depository institutions may deposit notes of any denomination that is subject to the recirculation fee.

(4) Depository institutions may deposit currency into or withdraw currency from custodial inventories at any time during the local Reserve Bank's business day.

(5) Depository institutions may maintain currency in custodial inventories on the Reserve Bank's books during fitness sorting or re-packaging.

(6) After reviewing the results of the proof-of-concept program, the Board will establish the inventory cap for currency that depository institutions may deposit into custodial inventories.

(7) Depository institutions that operate custodial inventories may continue to order currency from and deposit currency to Reserve Banks, which will monitor the activity for cross-shipping.

(8) Reserve Banks will require depository institutions to account for custodial inventory transactions via a Reserve Bank-provided, Internet-based accounting and inventory tracking system, to allow both Reserve Banks and the depository institutions to monitor the Reserve Bank-owned currency.

(9) Depository institutions that operate custodial inventories must agree to requirements that mitigate the risks that Reserve Banks incur by allowing the institutions to hold their currency. These measures include the following:

(a) A depository institution that operates a custodial inventory must indemnify the Reserve Bank against theft or loss of Reserve Bank currency. As provided in Reserve Banks' Operating Circular 1, *Account Relationships*, any such obligation is secured by all of the institution's assets in the possession of, or maintained

with, any Reserve Bank, including its Federal Reserve account.

(b) Potential custodial inventory sites must comply with Reserve Bank physical security guidelines for vaults, access control, and camera coverage.

(c) Depository institutions proposing potential custodial inventory sites must agree to operate their facilities in accordance with Reserve Bank guidelines for access and control.

(d) Depository institutions that operate custodial inventories must segregate Reserve Bank currency from other currency.

(e) Depository institutions that operate custodial inventories must allow full access to Reserve Banks, the Board, the General Accounting Office, and their agents for unannounced audits of Reserve Bank currency.

(f) To qualify for a custodial inventory, a depository institution must be financially sound, as determined by its administrative Reserve Bank.

(10) Any depository institution that uses a custodial inventory to circumvent the intent of the recirculation policy will lose its eligibility to participate in the program.

Recirculation Fee

(1) *Fee.* Reserve Banks will charge depository institutions a recirculation fee to recover currency processing costs for every 1,000 fit notes that a depository institution cross-ships, above a *de minimis* exemption. A Reserve Bank will assess a recirculation fee if a depository institution deposits fit currency and orders the same denomination within the same business week, within a Reserve Bank zone or sub-zone. This policy does not apply to \$50 and \$100 notes.¹⁹ Based on current costs, Reserve Banks project that the recirculation fee will be in the \$5 to \$6 range for every 1,000 notes of currency that a depository institution cross-ships. Reserve Banks will announce the amount in the quarter before implementing the fee.

(2) *Recirculation fee components.* The recirculation fee will be based on those Reserve Bank costs that vary with the quantity of currency processed. Such costs include personnel, materials, and equipment. The fee will not include overhead costs such as facilities, legal, business development, audit, and protection services that Reserve Banks incur to meet their central bank cash services responsibilities.

(3) *Recirculation fee de minimis exemption.* Reserve Banks will allocate recirculation *de minimis* exemptions to depository institutions for each zone or sub-zone where they do business. Reserve Banks will apply the exemptions to depository institutions' total cross-shipped volume; exemptions will not be denomination specific. *De minimis* exemptions may not be transferred from one zone or sub-zone to another. Unused *de minimis* exemptions will expire at the end of each quarter. Initially, the *de minimis* exemption would be 1,000 bundles per quarter. Reserve Banks will review the level of the *de minimis* exemption annually.

(4) *One-dollar notes.* Initially, Reserve Banks will not assess a recirculation fee for one-dollar notes. Reserve Banks will work with the banking industry to achieve, within two years of the effective date of the permanent custodial inventory program, Reserve Bank net savings comparable to those that could be realized by including one-dollar notes in the policy. Reserve Banks will review one-dollar recirculation annually for the duration of the collaborative program. If this collaborative effort fails to yield savings comparable to those achieved by Reserve Banks through implementing this policy to the \$5 through \$20 denominations, the Board will include one-dollar notes under the recirculation policy.

(5) *Reserve Bank zones and monitoring.* Reserve Banks will monitor currency orders and deposits for all endpoints of depository institutions in each Reserve Bank office service area ("zone") for recirculation. Reserve Bank zones with large metropolitan areas located at a significant distance from a Reserve Bank office may be divided into smaller service areas ("sub-zones"). Reserve Banks will monitor together endpoints located in and near a sub-zone under the recirculation policy. Reserve Banks will monitor endpoints in other parts of a zone as a group separate from the endpoints in the sub-zone. Customers may choose the zone or sub-zone in which to include border endpoints. The criteria for establishing sub-zones balance the size of a metropolitan area against its distance from the Reserve Bank office. The table below outlines proposed sub-zone criteria, as well as the cities that would currently qualify. Reserve Banks will review sub-zone criteria annually.

¹⁹Initially, Reserve Banks will also not assess a recirculation fee for one-dollar notes.