



How to Minimize Federal Reserve Cross-Shipping Expenses

In addition to keeping their cash inventories optimized, banks also face the challenge of maintaining the right mix of currency fitness levels within their cash inventory. Currency notes simply wear out after changing hands many times.

Banks must meet customers' needs for new currency, fit notes for change orders, and "super fit" notes to put into their ATMs. To further complicate matters, they must minimize cross-shipping fees when depositing and ordering money from the Federal Reserve.

The Fed developed their cross-shipping policy as a way to discourage what it termed the "overuse of Federal Reserve Bank cash processing services" and to promote recycling best practices. In doing so, Fed

officials are balancing two opposing objectives: (1) to protect the ambient quality of our money supply by extracting unfit currency; and (2) to be as cost-efficient as possible.

Cross-shipping penalties provide financial institutions with economic incentives to recycle their fit \$10s and \$20s, rather than bringing them to the Fed for processing and picking up orders of Fed-fit \$10s and \$20s in the same or subsequent weeks. For now, the policy is restricted to just these two denominations, but it's possible that the Fed could extend the policy to \$50s and \$100s. (Smaller \$1 and \$5 denominations are circulated more often and get worn out more quickly, so there are no restrictions on returning them to the Fed.)



Cross-shipping

Cross-shipping fees for big banks, can exceed \$1 million a year. Under the policy, the first 875 bundles of combined \$10s and \$20s that a bank cross-ships in a given Federal Reserve Bank zone or sub-zone each quarter is not subject to the recirculation fee. This is known as the *de minimis* exemption.

Take, for example, the fictional ACME National Bank's situation. After their *de minimis* exemption was exhausted, the bank deposits 500 bundles of fit \$10s to the Boston Federal Reserve Bank. But in that same week, the bank also ordered 230 bundles of \$10s from the Boston

Federal Reserve Bank. So, according to the Fed's definition, ACME National Bank has cross-shipped 230 bundles, the lesser of the two bundle amounts.



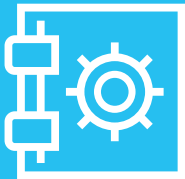
Custodial inventories

At the same time, to help banks better manage their fit currency and avoid cross-shipping charges, the Fed allowed them to keep what it calls a "Custodial Inventory" of fit \$10s and \$20s in their vaults and count the monetary value of that inventory as an interest-earning Fed deposit.

For example, GardaWorld manages many custodial inventories for our financial institution clients. We help them store their excess \$10s and \$20s within their custodial inventory and "time" their shipments of excess, fit notes back to the Fed until such time that no penalty

would be incurred. Custodial Inventories also function as an on-site safety stock that help maintain the cash supply chain during natural disasters or other disruptions.

Using our sophisticated currency supply chain management software, GardaWorld Cash Services helps its financial institution customers save millions of dollars each year in cross-shipping charges. We do this by helping them keep an always accurate view of their fit currency inventories – especially the \$10s and \$20s subject to cross-shipping charges.



GardaWorld's exclusive cross-vault currency exchanges capabilities

GardaWorld has also won the Fed's approval to manage what we call "currency exchanges" between the respective vaults of our bank customers. In short, we facilitate a legal exchange of fit currency between our vault clients' inventories instead of shipping one client's excess inventory to the Fed and then shipping back another client's change order of the same denomination.

Obviously a currency exchange short-circuits the Fed's process, but the Fed supports it because it aligns with its currency recirculation policy and eliminates work that a Fed facility and

people would otherwise have to do. It also eliminates thousands of miles of armored truck driving that saves gas and emissions.

Given that the 300 GardaWorld Cash Services secure operations centers are just about everywhere, and that we handle \$5 billion in cash each business day, we're the only cash logistics company with the size and scale to facilitate currency exchanges between the vaults of large financial institutions.

Helping financial institutions avoid cross-shipping charges by having better visibility of their fit currency inventories shows how GardaWorld Cash Services goes beyond secure transportation to provide value to its customers.

To find out more about how we can help you right-size your cash inventories, visit our website at garda.com/cashservices or contact your GardaWorld Cash Services representative.