



FEDERAL RESERVE BANK
OF DALLAS

HELEN E. HOLCOMB
FIRST VICE PRESIDENT AND
CHIEF OPERATING OFFICER

DALLAS, TEXAS
75265-5906

May 3, 1999

“Year 2000 Readiness Disclosure”

Notice 99-28

TO: The Chief Operating Officer of each
financial institution and others concerned
in the Eleventh Federal Reserve District

SUBJECT

Year 2000 Contingency Plan for Cash Services

DETAILS

The Federal Reserve is increasingly optimistic that the banking industry and the nation's electronic payment mechanisms will operate smoothly after the clocks roll into the Year 2000. The banking industry is ranked at the top of all industries for Y2K compliance efforts. Nevertheless, it is prudent to take precautionary measures in order to be able to fully assure the public that cash is available and that a sound contingency plan is in place. As Governor Edward Kelley said in his testimony to Congress in April, “Regardless of our view that consumers do not need to hold excess cash during this period, the Federal Reserve has been given the mission by Congress to provide currency to the public as demanded and will be prepared to fulfill this responsibility whatever the level of demand might be.”

In 1998, we distributed a notice (98-125) to you listing many issues that financial institutions need to consider when developing their cash contingency plans for the months leading up to and following the Y2K transition. Subsequent discussions with the financial industry indicate cash service providers are in the process of developing contingency plans to address various issues raised in that notice.

As a follow-up to our previous notice, we would like to provide you with an update on the Federal Reserve's Y2K cash readiness plans. To date, the Federal Reserve has taken the

following steps to ensure that an ample supply of cash will be available to meet possible increases in demand for cash during the Y2K transition:

- Increased the amount of new currency ordered from the Bureau of Engraving & Printing for Fiscal Year 1999;
- Accelerated currency processing at Federal Reserve Banks to ensure an adequate level of payable inventory (new and fit currency) in Reserve Bank vaults; and
- Developed detailed business resumption, contingency, and event management plans to prepare adequately for the Y2K transition. These plans include implementing flexible operating hours toward the end of 1999, including extending dock hours and opening for business during the rollover weekend, so that emergency orders for cash are paid out in an expeditious manner.

Recent discussions that the Federal Reserve has had with representatives from the financial industry and armored carriers reveal additional issues that need to be addressed in the financial industry's Y2K cash readiness plan, as follows:

- **Estimating Currency Holdings for the Y2K Event**

The Federal Reserve has received a number of inquiries from the financial industry requesting more guidance on how to estimate the amount of currency to hold for the Y2K event. As we indicated in our previous notice, the amount of additional currency that an institution may need to hold depends on a number of factors including the profile of its customer base (individual, retail, and other business customers). The American Bankers Association has published an article with detailed guidance on many of the issues we cited on Y2K cash readiness. This article can be obtained through the ABA web site at <<http://www.aba.com>>.

- **Timely Ordering and Placement of Y2K Cash by DIs**

One critical factor that we encourage you to incorporate into your Y2K cash contingency plan is that the armored carrier industry will be working at peak capacity for the holiday season between mid-November and the end of December. In recent meetings with the Federal Reserve, representatives from the armored carrier industry emphasized that while there may be space on an armored truck for additional currency *within* a scheduled run, the carriers are stressing that there is no room for significant expansion in either the route structure or the operating capacity (i.e., more trucks) of the carrier industry to add *special runs* during this peak period. Therefore, the armored carrier industry is strongly recommending that depository institutions accumulate the required amount of additional cash *prior to November 1999* and have this money deployed at the location where it

will ultimately be needed by the public (i.e., branches). If your plans include limiting the denominational mix available in ATMs during the latter part of the year (thus increasing its capacity), you may want to contact your ATM service providers early in the planning process.

- **Strategic Inventory Locations for Federal Reserve Currency**

The Federal Reserve recognizes the need to place additional currency inventories in locations that will facilitate expeditious delivery of emergency currency orders to depository institutions. In order to ensure that the Federal Reserve is prepared to react quickly to emergency demand for currency from the financial industry, we will establish a number of strategic inventory locations (SILs) and store an adequate amount of cash at these sites.

The establishment of SILs by the Federal Reserve should not be construed as a substitute for procuring additional Y2K cash as deemed appropriate by each DI's management. SILs provide a mechanism for the Reserve Banks to respond more quickly to unexpected sudden demand for currency and will be used only for emergency purposes during the Y2K period.

The Federal Reserve is in the process of identifying these SIL locations using criteria such as population, traffic congestion, distance from a Federal Reserve office, and other key factors. We expect that there may be over 100 such locations around the country. The SIL sites will be stocked with new \$20, \$50, and \$100 notes only. Our current plans call for establishing the SILs and loading them with an appropriate level of currency inventory by October 1, 1999.

Depository institutions will not experience any change in the way that they now order currency from the Federal Reserve; all DI orders for currency will continue to be placed through Reserve Bank staff, who will decide whether the orders should be filled from a Reserve Office or from an SIL site.

- **Communicating Industry Readiness to the Media and Public**

Another concern expressed during discussions with representatives from the financial industry is the need for a more organized and consistent public relations effort to calm public anxiety and deter the inclination to withdraw and hoard significant amounts of cash in preparation for the Y2K transition. The Federal Reserve understands that this is the financial industry's first line of defense and has launched a comprehensive public information program to address this concern. Indeed, Federal Reserve Chairman Alan Greenspan testified before Congress in February that the most sensible response to Y2K is to leave your money

where it is. Depository institutions should also undertake public information campaigns to assure their own customers that their institution is fully prepared, and that, even if computer glitches do occur, deposits will be safe and accessible.

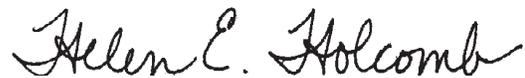
The Federal Reserve System hopes that this notice has been helpful in addressing your questions about the availability of cash for Y2K. As our plans for this event continue to solidify, we will keep you informed of the progress being made and any additional issues to consider as they arise.

MORE INFORMATION

For further information on cash contingency plans, please contact Bill Morse, (214) 922-6802, at the Dallas Office; Eloise Guinn, (915) 521-8201, at the El Paso Office; Marilyn Snider, (713) 652-1521, at the Houston Office; or Richard Gutierrez, (210) 978-1401 at the San Antonio Office.

For additional copies of this Bank's notice, contact the Public Affairs Department at (214) 922-5254.

Sincerely,

A handwritten signature in cursive script that reads "Helen E. Holcomb". The signature is written in black ink and is positioned below the word "Sincerely,".