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By Electronic and U.S. Mail Delivery

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

RE: Comments on Proposed Federal Reserve Bank Currency Recirculation Policy -- Docket No. OP-1164

Ladies and Gentleman:

FleetBoston Financial Corporation, a diversified financial holding company headquartered in Boston, Massachusetts, ("Fleet") is pleased to have this opportunity to comment on the above-reference proposed regulation offered for comment by the Board of Governors of the Federal Reserve System (the "Board").

Fleet is the seventh largest bank holding company in the United States, with total assets exceeding $190 billion. Fleet offers a comprehensive array of financial products and services to 20 million customers in more than 20 countries and territories. Among the company's key lines of the business are retail and commercial banking; capital markets, investment banking and commercial finance; trust and investment services, including nationwide brokerage; and private equity investing.

Fleet's primary banking subsidiary, Fleet National Bank. (the "Bank") is a national banking association with branches throughout the Northeast and Middle Atlantic states. The Bank's businesses are national in scope and include consumer, small business and commercial banking, international banking, corporate banking, principal investing, credit card services, commercial real estate lending, commercial leasing and mortgage banking. Some of these businesses are conducted by the Bank through wholly owned operating subsidiaries.

Overview of Our Comments

To reduce depository institutions' overuse of Reserve Bank cash-processing services that are provided at no charge, the Board proposes revising its cash services policy by adding two elements: (1) a custodial inventory program that provides an incentive to depository institutions to hold currency in their vaults to meet customers' demand; and (2) a fee to depository institutions that deposit fit currency to, and order currency from, Reserve Banks within the same week. Initially, the policy changes would apply only to the $5, $10, and $20 denominations.

Fleet does not support the Boards efforts to implement a recirculation policy because the changes will require significant adjustments to bank operations. Moreover, the provisions will create additional costs, which will inevitably be passed on to customers, resulting in financial impacts in key markets. These increased expenses will effect the largest banks while smaller institutions can use correspondent banks for services. Since small banks will not have increased costs to pass to customers, market inequities in pricing and product fees will result.

Our Specific Comments on the Proposal

Custodial Inventory Program

The proposal suggests the custodial inventory program will provide an incentive to hold currency in the Bank's vaults to meet customer demands. We oppose adoption of this provision because it is too burdensome. The Bank will incur significant expense in supporting the accounting requirements, resolving the facility capacity issues and taking steps to mitigate the increased risk associated with maintaining the inventory. The Board has not fully explained the requirements of the custodial inventory, nor will the program be finalized until January 28, 2004, which is beyond the comment period.

Fee to Depository Institutions

The proposal requires banks that deposit fit currency to, and order currency from, Reserve Banks within the same week to pay fees. We oppose the adoption of this provision because it places an undue financial burden on depository institutions. In order to avoid the fees, banks will be required to invest in new equipment, facilities and human resources. The recirculation of currency will over time, create further degradation in the quality of the notes and costs to the banks will continue to escalate. As the currency quality continues to decline, the burden will fall on the large banks to further increase resources to fit sort. As less money is processed by the Federal Reserve Bank, the likelihood of increased counterfeit activity is high. Increased counterfeit activity may also result from the unwillingness of the Federal Reserve Bank to provide the banks with its proprietary detection technology. Finally, the proposal does not address recirculation for one-dollar bills. When included in the program, fees will double for this institution.

Closing Comments

This proposal will result in increased expense for the banks, including opportunity costs as cash balances increase, transportation costs resulting from the need to position processing in strategic locations, and costs for equipment needed for compliance with the new requirements and to avoid fees. Current transportation pricing to the banks is based on an infrastructure supporting multiple banks depositing at the Federal Reserve Bank on a daily basis. As the conjunctive/shared trips to the Federal Reserve Bank decline, prices will increase. As facility liabilities increase, insurance increases.

The current pricing attached to the fee schedules is placed at a level, which provides banks with an incentive to purchase high-speed equipment rather than pay the fees. In addition, at this time, the banks do not have a method to validate that the billing units are accurate and must, in good faith rely on the Federal Reserve Bank. Since there has always been and continues to be, "district rules", the administration and enforcement of the Operating Circular, may lack required consistency, thus resulting in inequity among the large banks.

Relative to the comments and, in summary, Fleet opposes changes to the cash services policy. The proposed changes follow a thirty-year period with minimal to no change in policy. It is evident the burden is being shifted to the large banks, with the Federal Reserve Bank in an inactive role in the recirculation of US dollars.

We appreciate the opportunity to provide you with these comments. If you desire further detail or discussion of any part of this letter please do not hesitate to contact the undersigned or Carla Gage, Group Manager, at (518) 370-7774.

Sincerely,

Marie B. LaQuerre
Director
Cash, Float, & Logistics Management