

# Cheque Clearing Changes

## Background

The Office of Fair Trading (OFT) has been working with the UK banking industry to review the potential for improvements to UK payment services. The OFT established a Payment System Task Force to investigate a range of payment issues including cheques and electronic payments. As a result, two key initiatives have been established: Faster Payments and Cheque Clearing Changes. This factsheet explains the changes to cheque clearing.



## Changes to the cheque clearing system

Although cheque use has declined in recent years as automated payments and cards have become more popular, it still remains a very important payment method, particularly for small businesses. The OFT has identified a need for the cheque clearing system to be more transparent and to provide greater certainty.

These improvements introduce maximum time limits for cheque clearing and clarify when interest is paid (value), when customers can withdraw money from their account (withdrawal) and when they can be certain that their account will not be debited for an unpaid cheque (a new development, referred to as fate).

## How these changes work

In November 2007, maximum times were set for all component parts of the cheque clearing cycle. This is broken down into 'the paying-in day' (known as Transaction Day or 'T' – for The Royal Bank of Scotland this is the date it appears on the statement) plus 2, 4 or 6 working days (Saturdays, Sundays and English bank holidays are non-working days).

For example: A customer paying in a cheque on a Monday can expect to earn interest (if the account pays interest on credit balances) two working days later on Wednesday (T+2). This is also the point at which this money will reduce the amount of overdraft interest charged (if applicable). Funds can be withdrawn by day five, Friday (T+4). By the end of day seven, the second Tuesday (T+6) the money will be the customer's and cannot be reclaimed after this time (i.e. as a result of a cheque being returned unpaid). Any unpaid cheques returned too late, i.e. after T+6, will not be debited to the customer's account.

Transaction Day (T) Monday	T+2 Wednesday	T+4 Friday	T+6 Second Tuesday
Cheque is paid in and the credit appears on the customer's statement.	Funds start to earn interest.	Funds can be withdrawn*.	At the close of business on this day, the customer can be sure that the money is theirs and it cannot be reclaimed.

\* Savings accounts from some financial institutions may have a deferred withdrawal of T+6 for credit risk reasons.

### **What is the main benefit for customers?**

For the first time, customers can be sure that a maximum of seven working days after their statement is credited, the money will be theirs. They will be protected from any loss if the cheque is returned unpaid (because of insufficient funds or if it is stopped or fraudulent). The money cannot be reclaimed for an unpaid cheque after the seven days have elapsed (unless the beneficiary customer is party to a fraud) – this will be known as Certainty of Fate.

### **Northern Irish and Scottish cheque clearing timeframes**

Northern Irish and Scottish cheques will now be no different from those in the rest of the UK and will benefit from the same 3 day clearing timeframes.

### **Are there any banks or building societies that will not be making these changes?**

It is expected that the majority of banks and building societies will make the changes to ensure they adhere to the best practices set out in the Banking Code.

### **What else has been changing?**

RBS will be making some changes to internal procedures to remove uncertainty on cheque clearing timeframes.

- Since 9 October 2007, cheques are no longer returned on Day 4, which means that:
  - All Pay/No Pay decisions need to be made on Day 3 (this does not apply to House Cheques – which is a cheque presented for payment at the branch it was drawn on).
  - Late Returns cease to exist.
- RBS no longer uses 1st Class Post to deliver unpaid cheques. Instead, RBS uses an Interbank Courier Service for next day delivery.
- Since 10 August 2007, RBS no longer has an additional day on cross border clearing cycles (England/Scotland/Northern Ireland).

### **Points to remember**

- Certainty of Fate is being introduced.
- Late return of cheques is being abolished.
- Unpaid cheques will be transported by courier instead of post.
- Cross Border Clearing Cycle will become 3 days as standard.

### **Timescales**

The changes to cheque clearing procedures were implemented in November 2007.

**Finding out more** – To find out more about changes to the cheque clearing process, please contact your Relationship Manager.