



Currency Clearing

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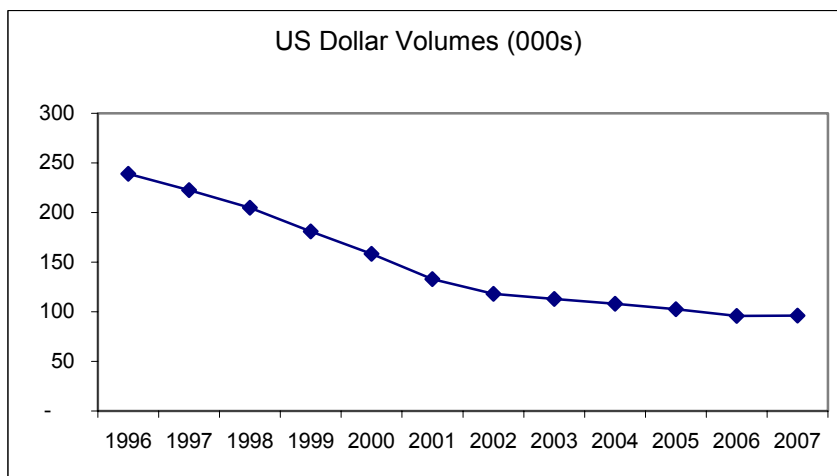
NATIONAL PAYMENTS PLAN- CURRENCY CLEARING CONSULTATION RESPONSE

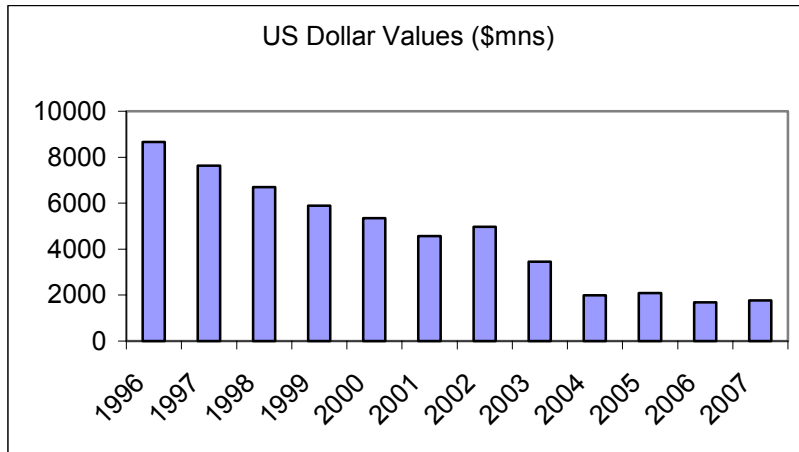
We welcome the development of a National Payments Plan and the opportunity to work with the Payments Council in both its creation and implementation. Please find below our comments in respect of the individual sections and relevant specific questions.

Section 3: Efficiency

The operation of the currency clearing is a fairly simple process since it currently deals only one currency, US Dollars. Members have confirmed that the clearing offers the most efficient method of processing US Dollar Cheques drawn on London. During 2008 a full review of the currency clearing operation will be conducted, including an investigation into why some customers continue to make payments by US Dollar cheque and what would be their attitude if the currency clearing was no longer available for clearance of such cheques.

Both volumes and value of US Dollar cheques have been fairly constant since the implementation of euro in January 1999 and the removal of non European currencies (e.g Japanese yen, Australian Dollars) shortly thereafter.





Q1 The Payments Council is minded to develop a proactive industry plan to manage what it sees as the irreversible decline in cheques. Do you agree that a plan for cheques should be developed?

There has been some discussion on whether currency cheques drawn on UK banks should be included in any cheques plan given that the payment instrument is the same whether in sterling or currency. We support the concept of inclusion but feel that the dollar cheque is a specialist product which has different stakeholder considerations to the sterling cheque. If US Dollar cheques drawn on London, cleared via the currency clearing are included within the plan they should be dealt with separately.

Q2 For which types of payment currently made by cheque do new alternatives need to be introduced?

The only real alternative to the currency cheque is to transfer funds via SWIFT payment. If the currency clearing were to close and cheques drawn in US Dollars were still required by customers, payment would need to be obtained by collection/ negotiation. No new products are being considered at an industry level. Members own currency product offerings are competitive and outside the scope of the Scheme.

Q3 Would it be acceptable for the National Payments Plan to include a target date of 2018 for the closure of the cheque clearing (on the assumption that acceptable alternatives to cheques have been developed)?

The 2018 target date of closure of the currency cheque clearing would be possible given that alternatives already exist. The US Dollar cheque could still be offered as a product but payment would be obtained via collection or negotiation rather than via the currency clearing. Alternatively, if the US Dollar cheque were removed as a product, transfers would be made via SWIFT.

Q4 What sort of education of users is needed to support the migration away from cheques?

Customers would require assistance in understanding the alternatives. An industry standard message would have to be developed to assist Members with migrating customers away from currency cheques. Without adequate support we believe existing customers could be adversely impacted by withdrawal of the US dollar cheque. We will know more about the potential impacts and actions required after we undertake the review planned for this year.

Q6 What other actions, if any, should there be in the National Payments Plan in relation to cheques?

The NPP should consider whether any wider developments in currency payments markets, due to the implementation of the Payments Services Directive, will have any impact on the market for US Dollar cheques drawn on UK banks.

Section 4: Innovation

There appears to be no attractive alternative to the Dollar cheque for certain customers as volumes have been steady over the past 7 years. It may be that the current volumes represent the 'rump' of cheques which will still be issued for as long as the London clearing service exists. Alternative payment methods do exist, e.g SWIFT and some customers will be using them in preference to cheques. The currency clearing works efficiently and it is difficult to see how its operation could be improved by further innovation. The preferred course would be to migrate customers away from cheques altogether.

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