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Direct Line 0203 217 8389
angela.thomas@chequeandcredit.co.uk

Diego Escanero/Simon Debbage
Prudential Regulation Authority
20, Moorgate
London
EC2R 6DA

CONSULTATION ON IMPLEMENTATION OF RING-FENCING - RESPONSE FROM CHEQUE & CREDIT CLEARING COMPANY LTD

1. Background

The Cheque and Credit Clearing Company (C&CCC) is a membership-based industry body which manages the cheque clearing system in Great Britain. The Company was established in 1985 and is proud of its record in:

- providing consumers, via Financial Institutions, with the central payment system services for the exchange and settlement of cheques and credits. These services are underpinned by payments infrastructure including exchange centres, the network for the transfer of electronic cheque data, and an automated settlement system. It also includes a courier service for the return of unpaid cheques to the collecting bank;
- managing the operational processes of the central payment system services;
- determining the rules, standards and procedures required to maintain the integrity of the clearings, including the criteria for joining the clearings and ensuring compliance with those rules;
- engaging with the full range of stakeholders, which includes consumers and businesses that use cheques, banks that offer cheque clearing services, cheque processors, cheque printers and other suppliers, as well as regulators, trade associations and other payment schemes.



2. C&CCC Objective

The objective of the Company is to ensure that cheques and credits remain a viable, secure and efficient choice of payment for all users, so we will:

- promote innovation and competition in payment choice by driving improvements in processing, service and efficiency;
- provide a trusted centre of excellence for anyone with an interest in cheques or credits.

Since 1985 the C&CCC has provided a cheque and credit clearing service to customers who use cheques, whether as the recipient or issuer. Whilst cheque usage has been in decline since 1990 they remain a small but important part of the current account offering so it is vital that cheques are a safe, efficient and reliable payment option. It is our role to ensure that customers can be confident that they are.

In December 2013, the C&CCC Board reached an important milestone decision to adopt, as its strategy, a future clearing model which would deliver its overall objectives, as above, utilising an image based processing system, replacing the current, largely paper based, approach. We see the new image based clearing model, which is a C&CCC Board initiative, providing sustainability for cheques, thereby enabling further innovation to take account of technological developments as they occur and addressing customer requirements so that the cheque will continue to be available for their use for as long as the demand is present

3. Ring-Fencing Requirements

Our response to the ring-fencing requirements focuses on the implications for C&CCC as a system operator in respect of sort codes and membership. Any participant in C&CCC may respond to the Consultation in its own right and we express no view on the content of those responses. As each bank with a deposit base in excess of £25bn will be impacted, we believe 8 out of our 11 current members will need to make changes, either as a result of their individual size or because they are part of a larger corporate group.

3.1 Scheme Membership

Any affected bank active in C&CCC will be required to be a ring-fenced participant. It is likely that, going forward, a number of organisations will seek to have dual participation, as most banks with sizeable non-ring-fenced businesses will not be able to service that part via the ring-fenced participant. While open access criteria will be addressed as part of C&CCC's response to the Payment Systems Regulator's Consultation, organisations may not be able to provide adequate resource to support dual participation, with the unintended consequence of dilution of ownership and system operator governance which may not be fully representative.



3.2 Sort Codes

Sort codes provide an essential role in routing, settlement and reporting of financial transactions. An individual sort code can only be owned by one single legal entity. Ring-fencing will result in the creation of a new legal entity and consequently, new sort codes. The impact of these changes cannot be under-estimated. Many millions of customers will need to be moved from one sort code to another and we believe this is therefore the area of highest risk and greatest concern. Under the current cheque clearing model, the first two digits of the sort code determine the settlement member, although this is due to be addressed by October 2017, on completion of the move to an image-based cheque clearing model. . This is a critical dependency and any slippage in delivery of the new clearing model could impact the lead time for changes to support ring-fencing.

In summary, ring-fencing requirements will result in major, high risk change which C&CCC as a system operator will need to manage, impacting a large number of members and many millions of customers. The changes coincide with the development of a fundamentally new model for the cheque clearing. It is therefore critical that as a scheme, we have absolute clarity in definition and timescales.

We would be happy to meet to discuss this response if further clarification on this complex area is required.

Yours sincerely

Angela Thomas
Managing Director