

2-4-6 Cheque Clearance Information Sheet

Revised October 2013

Introduction

Significant changes were made to the system of cheque clearance at the end of November 2007 which could have important consequences for your business.

The new method for cheque clearance, commonly referred to as the 2-4-6 system, was introduced to bring greater clarity and certainty to the process by which financial instruments are cleared through the banking system within the United Kingdom.

The changes apply to sterling cheques paid into either a current or basic UK sterling bank or building society account by a UK customer. The clearance of bankers' drafts, bankers' cheques and building society cheques are also subject to the 2-4-6 system.

How it Works

The clock starts ticking under the 2-4-6 system from the moment your bank receives the cheque you have deposited. If received before your bank's published cut-off time this will be treated as Day 0.

From Day 2 you will start to receive interest on the amount deposited or, if you are overdrawn, the amount deposited will be offset against your overdraft.

In the case of a current account, on Day 4 your bank will allow you to draw against the cheque that was deposited, however, your bank will have until the close of business on Day 6 to notify you if they intend to bounce the cheque.

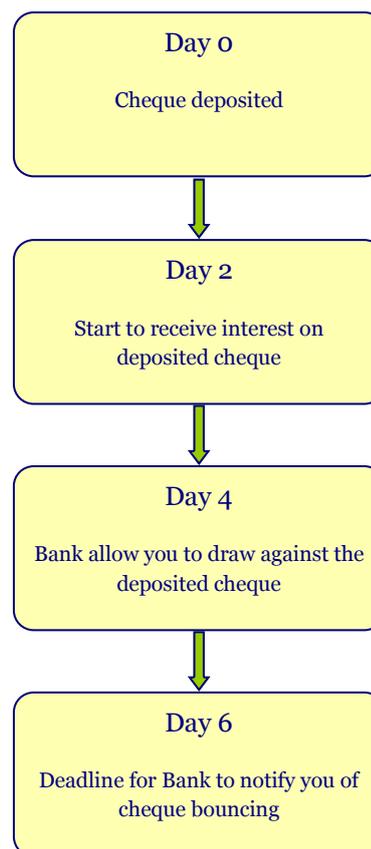
These are maximum periods. Individual banks may offer a faster service to achieve a competitive advantage so it is worth checking with your own bank in the first instance to see what their policy is.

Potential Pitfalls

The time periods referred to above are only guaranteed when the cheque is deposited over the counter of a branch of your firm's bank. If you deposit a cheque by post, at a cash machine, at a Post Office or a different bank you will not know with certainty when your bank will receive the cheque. In such cases it is advisable to check with your bank before treating the funds as definitely being cleared.

Where a bank's customer is a knowing party to fraud these timescales will not apply and the deposited cheque may be bounced outside of the quoted times.

For savings accounts, you may not be able to draw against the deposited cheque until the end of Day 6.



Conclusions

Drawing against an uncleared cheque can have disastrous consequences for a firm of solicitors. To avoid this risk you should allow seven full working days for a cheque to clear before drawing against it always assuming it was deposited over the counter of a branch of your firm's own bank in the first place.

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