

THE STATUS OF SCOTTISH AND NORTHERN IRISH BANKNOTES

The Bank of England provides the following answer to the question of whether or not Scottish and Northern Irish banknotes are legal tender:

“In short ‘No’ these notes are not legal tender; only Bank of England notes are legal tender but only in England and Wales.

The term legal tender does not in itself govern the acceptability of banknotes in transactions. Whether or not notes have legal tender status, their acceptability as a means of payment is essentially a matter for agreement between the parties involved. Legal tender has a very narrow technical meaning in relation to the settlement of debt. If a debtor pays in legal tender the exact amount he owes under the terms of a contract, he has good defence in law if he is subsequently sued for non-payment of the debt. In ordinary everyday transactions, the term ‘legal tender’ has very little practical application.”¹

‘Legal tender’ is defined by the Royal Mint as follows:

“Legal tender has a very narrow and technical meaning in the settlement of debts. It means that a debtor cannot successfully be sued for non-payment if he pays into court in legal tender. It does not mean that any ordinary transaction has to take place in legal tender or only within the amount denominated by the legislation. Both parties are free to agree to accept any form of payment whether legal tender or otherwise according to their wishes. In order to comply with the very strict rules governing an actual legal tender it is necessary, for example, actually to offer the exact amount due because no change can be demanded.”²

The distinction between legal tender and legal currency is clarified as follows by Wikipedia:

“The concept of ‘legal tender’ is a narrow technical definition that refers to the settlement of debt, and it has little practical meaning in everyday transactions such as buying goods in shops (but does apply, for example, to the settling of a restaurant bill, where the food has been eaten prior to demand for payment and so a debt exists).

¹ Bank of England FAQs - <http://www.bankofengland.co.uk/banknotes/about/faqs.htm#15>

² Royal Mint - <http://www.royalmint.com/Corporate/BritishCoinage/LegalTenderGuidelines.aspx>
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Banknotes do not have to be classed as legal tender to be acceptable for trade; millions of retail transactions are carried out in the UK using cheques, or debit or credit cards, none of which is a payment using legal tender. Acceptability as a means of payment is essentially a matter for agreement between the parties involved.

Millions of pounds' worth of sterling banknotes in circulation are not legal tender, but that does not mean that they are illegal or of lesser value; their status is of "legal currency" (that is to say that their issue is approved by the parliament of the UK) and they are backed up by Bank of England securities.

Bank of England notes are the only banknotes that are legal tender in England and Wales. Scottish, Northern Ireland, Jersey, Guernsey and Manx banknotes are not legal tender in England and Wales. However, they are not illegal under English law and creditors and traders may accept them if they so choose.

In Scotland and Northern Ireland no banknotes, not even ones issued in those countries, are legal tender. Scottish and Northern Irish notes are 'promissory notes' (defined as legal currency), essentially cheques made out from the bank to 'the bearer', as the wording on each note says. They have a similar legal standing to cheques or debit cards, in that their acceptability as a means of payment is essentially a matter for agreement between the parties involved, although Scots law requires any reasonable offer for settlement of a debt to be accepted."³

A recent consultation document produced by HM Treasury addresses this issue of banknotes produced by other UK banks and provides some useful background information on relevant legislation, etc.

Under the Bank Notes (Scotland) Act 1845 and Bankers (Northern Ireland) Acts 1845 and 1928, three banks in Scotland and five banks in Northern Ireland have the right to issue banknotes. The banks that are permitted to issue banknotes in Scotland are Bank of Scotland, Clydesdale Bank, and Royal Bank of Scotland. The banks that are permitted to issue banknotes in Northern Ireland are Bank of Ireland, First Trust Bank, National Bank, Northern Bank, and Ulster Bank.⁴

Under the Currency and Bank Notes Act 1954, banknotes issued by the Bank of England are permitted to be put into circulation in Scotland and Northern Ireland as well as in England and Wales.

Notes issued by UK banks other than the Bank of England have to be backed pound for pound by Bank of England notes. Owing to the combined size of these issues – well over a billion pounds – it would be cumbersome for the Bank to hold ordinary Bank of England notes as cover. Instead, special one million and one hundred million pound

³ Source: Wikipedia - http://en.wikipedia.org/wiki/British_banknotes

⁴ HM Treasury Consultation Document on 'Banknote Issue Arrangements in Scotland and Northern Ireland', July 2005 - http://www.hm-treasury.gov.uk/media/7/0/banknote_issue_arrangements_210705.pdf
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notes - known as Giants and Titans - are used. These notes are not for general circulation.⁵

In conclusion, there is no reason why Scottish and Northern Irish banknotes should not be accepted in other parts of the UK. While they may not be legal tender, they are legal currency and are backed by the Bank of England.

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⁵ Source: Bank of England website - http://www.bankofengland.co.uk/banknotes/about/other_notes.htm
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