

GBP INTERBANK COMPENSATION GUIDELINES

These revised guidelines replace any previous versions and take effect immediately.

The intention is to create a market standard, equally applicable to all parties, with fair compensation for all CHAPS GBP denominated payments between banks acting in a commercial banking capacity. This market standard should help to resolve the majority of compensation issues arising in a timely and cost-efficient way. It does not give rise to any legally enforceable rights or obligations.

1. Coverage

Parties subject to these guidelines are all RTGS member banks, participant banks and /or overseas banks using the GBP CHAPS system. These guidelines do not cover the relationship between banks and their customers, be it on the remitting or receiving side.

2. Type of Payments

All CHAPS payments should be included, irrespective of their nature. Any other GBP denominated interbank payment regarding which a bank has made an error should also fall under the spirit of these guidelines.

3. Fair Compensation

Compensation should be based on the BoE official Bank Rate including an administration charge in order to compensate the affected party for the risk and effort required to resolve the issue (see paras 7ff. below).

4. Where a claim for compensation is identified, the banks involved should settle the claim on the basis that no bank should be unjustly enriched or injured by the actions of another bank.

5. Compensation under these guidelines is payable only between the banks directly involved in the payment (the remitting bank and the receiving bank). If there is a payment chain, each link of the chain should be considered separately.

6. Payment or attempted payment of compensation under these guidelines does not constitute and should not be construed as an admission of negligence or fault on the part of any of the banks involved.

7. In relation to any single adjustment a fixed flat administration fee of GBP 100 is automatically payable by the bank which originally made the error or deductible from the interest amount payable to the bank which originally made the error, even if the interest claimable is below the threshold.

In relation to multiple payment adjustments to be made by a single entity at the same time, the parties may agree to aggregate the interest claims and vary the administration fees from the above, but subject to points 8 and 9 below.

8. Compensation under the guidelines is to be paid in GBP. Claims with an interest amount of less than GBP 150 are regarded as *de minimis* and are not expected to be made. This amount is exclusive of the GBP 100 administration fee which will be added to claims submitted over this minimum threshold.

9. These guidelines should be applicable only for claims introduced by the clearing bank initiating the adjustment within two months after the value date of the initial payment. Claims introduced after this two month period should be lodged on the basis of a bilateral agreement. All claims initiated under these guidelines are to be settled within a further one month period.

10. The following interest calculation formula ("Value of Funds") is to be used:

$(\text{Principal amount in GBP}) \times (\text{Compensation Rate}) \times (\text{actual number of calendar days for which funds held}) / 365 \times 100$

11. The "Compensation Rate" to be used when calculating the **use of funds claim** will be: The BofE official Bank Rate minus 0.25% for the days included in the above formula.

12. For compensation claims that relate to a request to **back value** as a result of non-payment then the "Compensation Rate" to be used will be: The BofE official Bank Rate plus 0.25% for the days included in the above formula.

13. Back Valuation

Definition: Back valuation arises where a receiving bank receives value on a day later than the date agreed.

(a) The remitting bank may request the receiving bank to back value the payment. Such a request must be accompanied by an agreement to cover the compensation costs of the receiving bank according to the formula below. Provided the administration fee and/or compensation is paid, the receiving bank should back value the payment to the date requested and reverse any related interest charges, unless:

- its customer instructs it not to back value the payment;
- the remitting bank requests a back valuation to a date more than two months prior to the initial payment date; or
- the request for back valuation is received more than two months after the initial payment date.

(b) If the receiving bank back-values the payment at the request of the remitting bank, the compensation payable by the remitting bank to the receiving bank (regardless of whether or not the beneficiary's account was actually overdrawn) is:

Value of Funds for the days back-valued, **PLUS** GBP 100 administration fee

(c) In the event that a customer declines a back valuation request, the beneficiary bank should return the payment and compensation payment to the remitting bank. Any further claims for compensation become a matter for the remitting bank and the beneficiary customer.

(d) In the event the remitter of funds makes a payment to the incorrect beneficiary and correction requires a transfer across the accounts of the clearing bank, then an administration fee of GBP 100 is payable with no compensation claim raised, provided all parties are in agreement.

14. Forward Valuation

Definition: Forward valuation arises where the receiving bank receives value on a date earlier than the date agreed.

(a) The remitting bank may request the receiving bank to adjust the payment to a future value date. Such a request must be subject to the agreement of the receiving bank to compensate the remitting bank according to the formula below, unless

- its customer does not agree to the forward valuation of the payment;
- the account has been closed;
- the remitting bank requests forward valuation to a date more than two months later than the initial payment date.

(b) If the receiving bank adjusts the payment to a future value date at the request of the remitting bank, the remitting bank can claim compensation from the receiving bank, within two months from the date on which the requested adjustment was made, of:

Value of Funds for a maximum of two months forward-value, **LESS** GBP 100 administration fee.

15. Request for return of a payment sent in error with original value where the receiving bank has benefitted.

NOTE

Compensation is only payable where the receiving bank has benefitted. If the payment has been correctly credited to the beneficiary in accordance with the instructions received and the receiving bank has not benefitted any interest claim is not covered by these guidelines and should be settled on a bilateral basis.

Definition *This arises where a remitting bank sends a payment in error, e.g.:*

- *duplicates a payment,*
- *issues a payment to a wrong bank,*
- *overpays,*
- *issues a payment which cannot be applied, or*
- *issues an erroneous payment for any other reason.*

(a) The remitting bank will request the receiving bank to return the funds sent in error.

(b) Subject to existing CHAPS Rules (refer to CHAPS Procedural Documentation, Chapter 3, Section 13) these funds should be immediately returned by the receiving bank, or where necessary, on receipt of customer authorization. Funds returned in accordance with these criteria will not be subject to payment of the GBP 100 administration fee.

(c) If a receiving bank returns such a payment at the request of the remitting bank, the latter can claim compensation from the receiving bank within two months of the date on which the funds were returned, of: Value of Funds at the then Official Bank Rate minus 0.25% for the number of calendar days for which money was held, up to a maximum of two months, **LESS** GBP 100 administration fee. If funds have not been returned to the remitting bank within two business days following the date of the original claim or of obtaining the customer's authority, whichever is the earlier, the compensation rate to be used will be current Official Bank Rate without margin until funds are returned.

16. Market disruption

In the event of major market disruption (which shall also include disruption to the settlement systems) the recommendations of the MMLG Contingency Rates sub-Group and Annex 1, Section 3 of the NIPS Code should apply.

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