



Corporate Turnaround and Insolvency

September 2014

Errors on CHAPS payment requests

The Courts have been considering who, if anyone, is liable to a customer when CHAPS transfers go wrong. In July 2014, the Court of Appeal handed down its decision concerning accuracy of CHAPS payment requests in **Tidal Energy Limited v Bank of Scotland**.

The decision is favourable for banks as it determined that minor inaccuracies in the CHAPS request would not invalidate the bank mandate.

CHAPS (Clearing House Automated Payment System) is one of the most frequently used same day payment system for cleared funds. Its principal benefit is the speed of payment within 1.5 hours.

Tidal Energy, which was a customer of Bank of Scotland, made a CHAPS payment request for £217,000 to be sent from its account to a supplier. However, Tidal was the victim of fraud and had been given incorrect account details. The bank debited the funds from Tidal's account pursuant to the CHAPS request.

Tidal brought proceedings against the bank on the basis that the account name on the CHAPS mandate did not match the name of the recipient account and therefore funds should not have been taken from Tidal's account. Or, viewed another way, Tidal had named the correct beneficiary but used the wrong sort code and account number.

Both the High Court and Court of Appeal determined that an error in the name of the CHAPS form did not invalidate it. When the customer completes a CHAPS form, it contracts with the bank on the bank's accepted practices which only require verification of the sort code and account number. In fact there is no requirement to name the recipient at all.

Tomlinson LJ stated that "the hallmark of CHAPS is speed" which would be economically impossible if the recipient's name and other details had to be checked against the account details in all cases. Further, the recipient's details were not in the control of the bank sending the funds and such information is confidential between the payee and the recipient bank.

This is good news for banks and a reminder to customers to take care when completing CHAPS request forms. If an error is made on a CHAPS form, the payer should seek urgent relief in the form of a freezing order against the unintended recipient.

The author Charlotte May is a member of Burgess Salmon's dispute resolution team led by David Hall.

Contacts



David Hall

Partner

+44(0)117 902 2798

david.hall@burgess-salmon.com



Charlotte May

Associate

+44(0)117 307 6286

charlotte.may@burgess-salmon.com

Burgess Salmon LLP, One Glass Wharf, Bristol BS2 0ZX Tel: +44 (0) 117 939 2000 Fax: +44 (0) 117 902 4400
6 New Street Square, London EC4A 3BF Tel: +44 (0) 20 7685 1200 Fax: +44 (0) 20 7980 4966

www.burgess-salmon.com

Burgess Salmon LLP is a Limited Liability Partnership registered in England and Wales (LLP number OC307212) and is authorised and regulated by the Solicitors Regulation Authority. A list of members, all of whom are solicitors, may be inspected at our registered office: One Glass Wharf, Bristol BS2 0ZX.

© Burgess Salmon LLP 2014. All rights reserved. Extracts may be reproduced with our prior consent, provided that the source is acknowledged. Disclaimer: This briefing gives general information only and is not intended to be an exhaustive statement of the law. Although we have taken care over the information, you should not rely on it as legal advice. We do not accept any liability to anyone who does rely on its content.

Data Protection: Your details are processed and kept securely in accordance with the Data Protection Act 1998. We may use your personal information to send information to you about our products and services, newsletters and legal updates; to invite you to our training seminars and other events; and for analysis including generation of marketing reports. To help us keep our database up to date, please let us know if your contact details change or if you do not want to receive any further marketing material by contacting marketing@burgess-salmon.com.