Title:
VII.7 - Right to charge compound interest

Content:
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Compound interest may be charged on interest.

Commentary:
The Principle provides that compound interest, i.e. interest on interest, may be charged. Such a case is given, e.g., where compound interest would provide a fair and commercially reasonable element of compensation to the innocent victim of a non-performing party, for example when the aggrieved party must take credit for the money not received from the other side and has to pay compound interest to its bank because banks typically charge compound interest. In such cases, the charging and awarding of compound interest is in line with the reasonable expectations of commercial parties. It is for this reason that compound interest is increasingly awarded by international commercial arbitrators either as trade usage, as a substantive rule of private law reflected in the present Principle or under an expressly agreed provision, e.g. Art. 26.6 of the LCIA Arbitration Rules.