

Module Code: LU2023

Module Name: Law Relating to Domestic Banking

### **Question 3:**

#### **Issue 1: Galactic Bank's refusal to execute the cryptocurrency payment**

##### **Issue:**

Whether Galactic Bank was legally entitled to refuse Ahmed's instruction to transfer £5,000,000 from Stargazer Limited's account to a crypto-exchange.

##### **Rule:**

The bank-customer relationship is primarily governed by contract. As established in *Halesowen Presswork & Assemblies Ltd v National Westminster Bank Ltd* [1971],<sup>1</sup> Banks make payments from their funds before reimbursing themselves from customer accounts. The Payment Services Regulations 2017 (PSR 2017) govern electronic payments and set obligations regarding unauthorized transactions.<sup>2</sup> The Financial Services and Markets Act 2000 (FSMA 2000) was amended in 2023 to include crypto-assets within the scope of regulated investments, indicating increased regulatory attention to cryptocurrency transactions.<sup>3</sup>

##### **Application:**

Ahmed, as director of Stargazer Limited, instructed Galactic Bank to transfer funds to purchase cryptocurrency. The bank refused on two grounds: claiming the transaction was for Ahmed's purposes, and the bank's policy against cryptocurrency-linked payments. Ahmed maintains the transaction was for company purposes, with the cryptocurrency to be sent to a wallet controlled by Stargazer. While cryptocurrency trading is not illegal *per se*, banks have discretion to determine their risk appetite under their regulatory obligations. The bank's refusal appears to be based on its internal policies rather than a legal prohibition. Following the 2023 amendment to FSMA 2000,<sup>4</sup> banks may have heightened caution regarding crypto transactions. However, without explicit terms in the banking agreement prohibiting such transactions, the bank's

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<sup>1</sup> R Salter, 'Remedies for Banks: An Outline of English Law' in *Banks and Remedies* (2021) 43–64.

<sup>2</sup> D D'Alvia, K Morbee and R Olivares-Caminal, 'PSD2, Brexit and the Financial Regulation of Payment Systems in the UK' in G Gimigliano and M Božina Beroš (eds), *The Payment Services Directive II: A Commentary* (Edward Elgar Publishing 2021) 425–443.

<sup>3</sup> K Alexander, *Insider Dealing and Market Abuse: The Financial Services and Markets Act 2000* (ESRC Centre for Business Research, University of Cambridge 2001) Working Paper No 222.

<sup>4</sup> K Alexander, *Insider Dealing and Market Abuse: The Financial Services and Markets Act 2000* (ESRC Centre for Business Research, University of Cambridge 2001) Working Paper No 222.

obligations under PSR 2017<sup>5</sup> would generally require execution of properly authorized payment instructions.

**Conclusion:**

Ahmed could argue that Galactic Bank breached its contractual obligations by refusing a properly authorized transaction. The bank would need to demonstrate that its terms of service explicitly permitted refusal of cryptocurrency-related transactions or that it had reasonable grounds for suspicion of impropriety beyond the mere involvement of cryptocurrency. The bank should review its account terms to ensure they explicitly cover cryptocurrency restrictions.

**Issue 2: Alleged confidentiality breach and information leakage**

**Issue:**

Whether Galactic Bank, through Nita, breached its duty of confidentiality by allegedly leaking information about Stargazer's acquisition plans to a competitor.

**Rule:**

Banks owe a duty of confidentiality to their customers as established in common law. This duty extends to all customer information, including transaction details and future business plans disclosed to the bank.<sup>6</sup> The UK Corporate Governance Code promotes effective governance and ethical conduct, which would encompass confidentiality obligations for financial institutions.<sup>7</sup>

**Application:**

Ahmed alleges that Nita leaked information about Stargazer's planned acquisition of Quantum Limited to Lenor Limited, a competitor who subsequently outbid Stargazer. This allegation is particularly concerning given Nita's previous employment relationship with Lenor. The facts suggest a potential conflict of interest situation, with Nita having worked as a manager for Lenor before joining Galactic Bank. While Nita denies leaking information, Ahmed believes this led to Stargazer losing the acquisition opportunity. If proven, such disclosure would constitute a serious breach of the bank's confidentiality

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<sup>5</sup> D D'Alvia, K Morbee and R Olivares-Caminal, 'PSD2, Brexit and the Financial Regulation of Payment Systems in the UK' in G Gimigliano and M Božina Beroš (eds), *The Payment Services Directive II: A Commentary* (Edward Elgar Publishing 2021) 425–443.

<sup>6</sup> Financial Reporting Council, *The UK Corporate Governance Code* (London, September 2012).

<sup>7</sup> Financial Reporting Council, *The UK Corporate Governance Code* (London, September 2012).

duty. Ahmed would need to demonstrate that confidential information was indeed shared, the leak came from Nita or another bank employee, and this leak directly caused Stargazer's losses.

**Conclusion:**

If Ahmed can prove the bank breached its confidentiality duty, Stargazer may have grounds to claim damages for the resulting financial loss. However, proving such a leak occurred and establishing causation between the leak and Lenor's successful bid would be challenging. The bank should conduct an internal investigation regarding this serious allegation.

**Issue 3: The Bank's decision to close Stargazer's account**

**Issue:**

Whether Galactic Bank is entitled to close Stargazer's current account following the dispute.

**Rule:**

Banking relationships are contractual.<sup>8</sup> <sup>9</sup> Banks typically reserve the right to terminate banking relationships with reasonable notice, absent specific contractual terms to the contrary.<sup>10</sup> The Consumer Rights Act ensures fairness and transparency in bank-customer agreements, while the Unfair Contract Terms Act limits the extent to which liability can be excluded in contracts.<sup>11</sup> <sup>12</sup>

**Application:**

Galactic Bank has notified Ahmed that it will close Stargazer's current account at the end of May 2025. This closure appears to be in response to Ahmed's threat to sue the bank, suggesting it may be retaliatory. However, banks generally maintain the right to terminate banking relationships with appropriate notice. The key considerations are

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<sup>8</sup> Kamelia Kosekova, Angela Maddaloni, Melina Papoutsi and Fabiano Schivardi, 'Firm-Bank Relationships: A Cross-Country Comparison' (2025) *Review of Corporate Finance Studies* cfaf004.

<sup>9</sup> Ju Chen, Iftekhar Hasan, Chih-Yung Lin and Tra Ngoc Vy Nguyen, 'Do Banks Value Borrowers' Environmental Record? Evidence from Financial Contracts' (2021) 174(3) *Journal of Business Ethics* 687–713.

<sup>10</sup> Bülent Balkan, 'Impacts of Digitalization on Banks and Banking' in *The Impact of Artificial Intelligence on Governance, Economics and Finance, Volume 1* (Springer Nature Singapore 2021) 33–50.

<sup>11</sup> Balkan B, 'Impacts of Digitalization on Banks and Banking' in *The Impact of Artificial Intelligence on Governance, Economics and Finance, Volume 1* (Springer Nature Singapore 2021) 33–50.

<sup>12</sup> Arifa Pratami, Nur Feriyanto, Jaka Sriyana and Ikbar Pratama, 'Are Shariah Banking Financing Patterns Pro-Cyclical? An Evidence from ASEAN Countries' (2022) 45(127) *Cuadernos de Economía* 82–91.

whether the notice period (approximately one month) is reasonable, whether the bank's terms of service permit account closure in these circumstances, and whether the closure could be considered unfair or retaliatory under consumer protection legislation.<sup>13</sup> While banks have broad discretion to close accounts, doing so in direct response to a customer exercising legal rights could potentially be challenged under consumer protection principles as an unfair practice.

### **Conclusion:**

The bank likely has the contractual right to close the account with reasonable notice. However, if it can be established that the closure is solely retaliatory for Ahmed threatening legal action, this might be challenged under consumer protection principles. Ahmed should review the bank's terms and conditions regarding account termination and consider whether the notice period is reasonable for a business account with significant ongoing transactions.

### **Advice To Ahmed:**

Regarding the refused cryptocurrency transaction, Ahmed could argue breach of contract if the bank's terms did not explicitly prohibit cryptocurrency transactions. For the alleged confidentiality breach, Ahmed would need strong evidence that information was leaked by Nita to Lenor and that this directly caused Stargazer's loss of the acquisition opportunity. Ahmed should review the bank's terms regarding account closure to determine if the notice period is reasonable and whether retaliatory closure is permitted. Ahmed might consider requesting written explanations from the bank for both the transaction refusal and the proposed account closure to strengthen any potential legal claims.

### **Advice To Galactic Bank:**

The bank should ensure its policies on cryptocurrency transactions are communicated to customers and included in account terms. The bank must thoroughly investigate Ahmed's allegations of confidentiality breach, particularly given Nita's prior relationship with Lenor. The bank should review whether closing Stargazer's account in response to a legal threat could be considered unfair under consumer protection

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<sup>13</sup> Henry He Huang, Joseph Kerstein, Chong Wang and Feng Harry Wu, 'Firm Climate Risk, Risk Management, and Bank Loan Financing' (2022) 43(13) *Strategic Management Journal* 2849–2880.

legislation. The bank might consider offering Ahmed alternative payment methods for legitimate business purposes while maintaining compliance with its risk policies on cryptocurrency.

**Question 4:**

**Issue 1: The bank's decision to pause the transaction and file a SAR**

**Issue:**

Whether Excellent Bank acted lawfully in pausing the £10,000,000 transfer and filing a Suspicious Activity Report (SAR) based on Rajiv's suspicions.

**Rule:**

Under the Proceeds of Crime Act 2002 (POCA), Section 330 requires individuals in the regulated sector to report suspicious activity.<sup>14</sup> <sup>15</sup> The Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 (as amended in 2019) require financial institutions to conduct risk-based due diligence and ongoing monitoring, implementing FATF recommendations.<sup>16</sup>

**Application:**

Rajiv, responsible for AML compliance, had valid concerns: the Megatrends invoice appeared fake, online research raised doubts about the company's legitimacy, and the £10 million amount warranted scrutiny. Under Section 330 POCA, Rajiv was obligated to report his suspicions. He acted lawfully by referring the matter to the bank's nominated officer, who then submitted a SAR to the NCA.<sup>17</sup> The bank paused the transaction, pending consent, as required by law. Despite the transaction being later cleared, the bank's response was consistent with its duties under POCA and the Money

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<sup>14</sup> F Cram, 'Understanding the Proceeds of Crime Act 2002: Cash Seizure and Frontline Policing' (2013) 52(2) *The Howard Journal of Criminal Justice* 121–131.

<sup>15</sup> K Barton, 'The Implications of the Proceeds of Crime Act 2002 for Banks and Professionals' (2005) 6(2) *Journal of Banking Regulation* 183–193.

<sup>16</sup> Fabian Maximilian Teichmann, 'Current Trends in Terrorist Financing' (2022) 30(1) *Journal of Financial Regulation and Compliance* 107–125.

<sup>17</sup> Fabian Maximilian Teichmann, 'Current Trends in Terrorist Financing' (2022) 30(1) *Journal of Financial Regulation and Compliance* 107–125.

Laundering Regulations.<sup>18</sup> Institutions must apply a risk-based approach, especially for large overseas payments to potentially dubious recipients.

**Conclusion:**

Excellent Bank acted lawfully in pausing the transaction and filing a SAR. It was not only entitled but required to report the suspicious activity and await NCA consent. The delay was a reasonable outcome of fulfilling its regulatory obligations.

**Issue 2: Rajiv's disclosure to Lea about the SAR filing**

**Issue:**

Whether Rajiv's disclosure to Lea about the SAR filing constituted a "tipping-off" offence under anti-money laundering law.

**Rule:**

Section 333A POCA 2002 prohibits informing the subject of a SAR that a report has been filed or that an investigation is underway or contemplated.<sup>19</sup>

**Application:**

After the SAR was filed, Rajiv privately told Lea that a report had been made, the transaction paused, and the bank was awaiting the NCA's response. This amounts to tipping off under Section 333A POCA.<sup>20</sup> Rajiv disclosed confidential regulatory actions to Lea, the subject of the SAR. Such disclosure is forbidden as it risks alerting potential money launderers and enabling evasion. Rajiv's prior relationship with Lea and his dismissal from Star Systems add a layer of concern. It raises the possibility that his actions were personally motivated rather than professionally.

**Conclusion:**

Rajiv's disclosure to Lea likely constitutes a tipping-off offence under Section 333A POCA.<sup>21</sup> This breach could lead to criminal liability and represents a serious failure in upholding anti-money laundering obligations.

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<sup>18</sup> Fabian Maximilian Teichmann, 'Current Trends in Terrorist Financing' (2022) 30(1) *Journal of Financial Regulation and Compliance* 107–125.

<sup>19</sup> Rhodes QC and S Palastrand, 'A Guide to Money Laundering Legislation' (2005) 8(1) *Journal of Money Laundering Control* 9–18.

<sup>20</sup> Rhodes QC and S Palastrand, 'A Guide to Money Laundering Legislation' (2005) 8(1) *Journal of Money Laundering Control* 9–18.

<sup>21</sup> Rhodes QC and S Palastrand, 'A Guide to Money Laundering Legislation' (2005) 8(1) *Journal of Money Laundering Control* 9–18.

### **Issue 3: Lea's claim for damages due to the transaction delay**

#### **Issue:**

Whether Lea and Star Systems can recover damages from Excellent Bank due to the delay in executing the transaction.

#### **Rule:**

The Payment Services Regulations 2017 (PSR 2017) require the timely execution of authorized transactions. However, compliance with anti-money laundering laws takes precedence.<sup>22</sup> Under POCA, suspicion alone is enough to trigger reporting obligations.<sup>23</sup>

#### **Application:**

Lea claims the delay caused a £100,000 penalty under the Megatrends contract. However, the bank's delay stemmed from legal obligations under POCA and the Money Laundering Regulations.<sup>24</sup> Filing a SAR and awaiting NCA consent is a statutory requirement, not a service failure. Financial institutions must balance efficiency with compliance.<sup>25</sup> Here, Rajiv had a genuine basis for suspicion: a questionable invoice, doubts about Megatrends, and the transaction's large amount. Even if the transaction was later cleared, the bank's duty to report and delay pending consent overrides its usual transactional duties. This shields the bank from liability for the delay.

#### **Conclusion:**

Lea and Star Systems are unlikely to succeed in claiming damages. The bank acted in line with mandatory anti-money laundering obligations, which outweigh its obligations under PSR 2017 in these circumstances.<sup>26</sup>

### **Issue 4: The potential conflict of interest due to Rajiv's prior employment**

#### **Issue:**

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<sup>22</sup> Athanassiou PL, 'Regulation of Payment Services' in [Editor(s) Name(s)], *Comparative Financial Regulation* (Edward Elgar Publishing 2025) 255–271.

<sup>23</sup> Athanassiou PL, 'Regulation of Payment Services' in [Editor(s) Name(s)], *Comparative Financial Regulation* (Edward Elgar Publishing 2025) 255–271.

<sup>24</sup> Alberto Chong and Florencio Lopez-De-Silanes, 'Money Laundering and Its Regulation' (2015) 27(1) *Economics & Politics* 78–123.[EconPapers+3](#)

<sup>25</sup> Alberto Chong and Florencio Lopez-De-Silanes, 'Money Laundering and Its Regulation' (2015) 27(1) *Economics & Politics* 78–123.[EconPapers+3](#)

<sup>26</sup> Alberto Chong and Florencio Lopez-De-Silanes, 'Money Laundering and Its Regulation' (2015) 27(1) *Economics & Politics* 78–123.[EconPapers+3](#)

Whether Rajiv's past employment with Star Systems created a conflict of interest affecting his AML actions.

**Rule:**

The UK Corporate Governance Code requires financial institutions to manage conflicts of interest, ensuring compliance decisions are not compromised.<sup>27</sup>

**Application:**

Rajiv previously worked for Star Systems and was dismissed following a dispute with Lea. This raises a potential conflict, especially if Rajiv didn't disclose this to the bank. Lea claims Rajiv acted out of personal resentment. Though the SAR had objective grounds, a fake-looking invoice, a suspicious company, large sum, Rajiv's disclosure to Lea supports the argument that personal motives may have influenced him. His past employment, coupled with tipping-off behavior, compromises the integrity of his AML conduct.<sup>28</sup> However, the initial SAR filing may still be considered legitimate given the objective suspicious indicators, even if his actions afterwards were improper.

**Conclusion:**

Rajiv's prior relationship with Star Systems created a potential conflict that should have been disclosed. While this doesn't invalidate the SAR itself, it raises questions about his motives and conduct, especially in light of the tipping-off breach.

**Advice to Lea:**

Lea is unlikely to succeed in legal claims against Excellent Bank for the transaction delay, as the bank fulfilled its statutory AML obligations. However, she may report Rajiv's tipping-off conduct to regulatory authorities. Going forward, Lea should ensure large transactions are backed by clear documentation and business justifications to avoid future delays. She might also explore whether the penalty clause with Megatrends can be challenged, as the delay was due to legal compliance, not her fault.

**Advice to Rajiv:**

Rajiv faces serious consequences for breaching Section 333A POCA by tipping off Lea, including possible criminal liability. He should have disclosed his previous employment with Star Systems to avoid any perceived conflict of interest. While the

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<sup>27</sup> Financial Reporting Council, *The UK Corporate Governance Code* (London, September 2012).

<sup>28</sup> Financial Reporting Council, *The UK Corporate Governance Code* (London, September 2012).

SAR filing itself was likely justified, his later actions breached AML rules. Rajiv should cooperate with the bank's investigation and seek legal advice regarding his position under POCA.

## References:

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Athanassiou PL, 'Regulation of Payment Services' in [Editor(s) Name(s)], *Comparative Financial Regulation* (Edward Elgar Publishing 2025) 255–271.

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F Cram, 'Understanding the Proceeds of Crime Act 2002: Cash Seizure and Frontline Policing' (2013) 52(2) *The Howard Journal of Criminal Justice* 121–131.

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