IN THE MATTER OF

THE EXECUTIVE COUNSEL TO THE FINANCIAL REPORTING COUNCIL

AND

JAMES CORR

1. Mr. James Corr is a member of the Institute of Chartered Accountants of Scotland (ICAS). He qualified in 1976 and has held a number of roles as Finance Director in both private and public companies. He joined Cattles PLC (Cattles) as Finance Director in April 2001. He was described as the Group Finance Director. Cattles was a publicly listed financial services company. A wholly owned subsidiary, Welcome Financial Services Limited (Welcome), was authorised and regulated by the FSA. Welcome's principal business was retail consumer lending, providing low value secured, unsecured and hire purchase loans to sub-prime borrowers at high levels of interest. This was a very significant part of the Cattles Group business, as the Cattles 2007 Annual Report showed that it represented about 89.5% of Cattles revenue.

2. In its Annual Report and Financial Statements for the period ending 31 December 2007, and its rights issue prospectus dated 23 April 2008 (that raised £200 million), Cattles published false and misleading information about the credit quality of Welcome's loan book.

3. It was stated that as at 31 December 2007

a. Around £2.1 billion of Welcome's approximately £3.0 billion loan book was "neither past due nor impaired", ie not in contractual arrears;
b. The business (ie the business of Cattles conducted through Welcome) treated a loan account as impaired when the account was 120 days in contractual arrears; and
c. Cattles had made a pre-tax profit of £162.5m for the year ended 31 December 2007.

4. Cattles also announced misleading arrears and profit figures to the market on 28 August 2008, and it announced misleading arrears figures to the market on 18 December 2008.

5. All of these statements (the Public Statements) contained false and misleading information about the credit quality of Welcome's loan book, in that they provided arrears figures and profit figures based on International Financial Reporting Standard 7 (IFRS 7) without clarifying the role played by deferments in calculating the figures provided.

6. Welcome, to Mr. Corr's knowledge, used a system of deferments. A missed payment, contractually due, could be deferred to the end of the loan period. This often happened without any communication to or from the customer. A deferment was deemed either to restart or pause the arrears clock. The effect was that a loan on which interest payments had been deferred might be deemed by the business to be
   a. up to date and not in arrears notwithstanding the fact a number of payments contractually due had been missed; or

b. in arrears, but not impaired (ie not more than 120 days in arrears) despite more than four contractual monthly payments having been missed.

7. Had IFRS7 been properly applied (as it was not), then the use of deferments which were regularly used by Welcome would have resulted in loans which had been deferred being treated as past due or renegotiated. The consequence of failing to strip out the deferments from the "neither past nor impaired" category was extremely significant. About £2.1 billion of the loan book was disclosed as not being in contractual arrears, and this was highly misleading. It indicated that far more customers were repaying their loans on time than was actually the case. It is axiomatic that the level of a lender's contractual arrears as a proportion of the loan book is a key measure of financial performance.

8. Had loans which had been deferred been treated as being in contractual arrears, the application of Cattles' impairment trigger would have resulted in a pre-tax loss of £96.5m. This would be a reduction of £261.7m against the pre-tax profit of £165.2m.

9. When the true picture emerged, there was a catastrophic impact on shareholders (who lost all or virtually all of their investment), and on market confidence. During the relevant period, Cattles was a member of the FTSE 250, and at its height had a market capitalisation of over £1.0 billion. Once the true state of the loan book emerged in early 2009, trading in Cattles' shares was suspended. On 16th December 2009, Cattles announced that its shares "are likely to have little or no value". Had the true state of

the loan book been known, it is probable that the 2008 rights issue would not have been as successful.

10. The role played by Mr. Corr in the making of the Public Statements, and his acts and omissions between August 2007 and February 2009 were subjected to an investigation by the FSA. On 28th March 2012, a Final Notice was issued. By that notice, it imposed upon Mr. Corr a financial penalty of £400,000 for

    a. engaging in market abuse as defined by s.118 (7) Financial Services and Markets Act 2000 (FSMA); and
    b. being knowingly concerned in breaches of Listing Rule 1.3.3R and Listing Principles 3 and 4.

11. A prohibition order was imposed, prohibiting Mr. Corr from performing any function in relation to any regulated activity carried on by any authorised person, exempt person or exempt professional firm.

12. The findings of the FSA (which are, together with the complaint, the settlement agreement and the Final Notice, annexed to this Report) include a finding that Mr. Corr, as finance director of Cattles, signed the representation letter of 27 February 2008 to Cattles' auditor, PricewaterhouseCoopers, as to the veracity of the information provided to compile the Cattles 2007 Annual Report. Mr. Corr was found to have disseminated false and misleading information as to Cattles's shares

a. when signing the financial statements in the Cattles 2007 Annual Report on behalf of the Cattles Board on 28 February 2008;
b. approving the Rights Issue Prospectus dated 23 April 2008; and
c. approving the 2008 Announcements.

13. The FSA found that (i) in relation to the Public Statements, Mr. Corr engaged in market abuse contrary to s.118(7) FSMA, by disseminating information that gave a false and misleading impression to the market as to the value of Cattles' shares; and (ii) that Mr. Corr was knowingly concerned in Cattles' breaches of Listing Rule 1.1.3R by providing misleading, false or deceptive information; and of Listing Principle 3, requiring a listed company to act with integrity; and of Listing Principle 4, by the creation of a false market.

14. The FSA considered whether Mr. Corr acted with integrity in discharging his responsibilities. The factors considered by the FSA included his responsibilities as Group Finance Director and Finance Director of a listed company; his experience; the importance of IFRS7 to the business; the nature of the business, together with its size, scale and importance, including a loan book of over £3.0 billion; the evidence of Mr. Corr's contributions in meetings and other communications on the issues surrounding the valuation of the loan book.

15. This should have led to Mr. Corr's relying on and asserting his position and authority as an experienced Group Finance Director;

ensuring a culture of transparency and openness in relation to financial statements; ensuring key roles were filled by those delivering according to their responsibilities; and taking a rigorous interest in the treatment of deferrals and their impact on impairment.

16. The FSA concluded that Mr. Corr failed to act with integrity in not doing what he should have done.

17. Under the Accountancy Scheme, Paragraph 13(3), those findings by the FSA are conclusive evidence of an act of misconduct. Executive Counsel to the FRC has raised a formal complaint under Paragraph 6(8) of the Scheme relying upon those findings. The parties have entered into a settlement agreement dated 1 February 2013. Mr. Corr admits that the complaint sets out the findings of the FSA as described in the Final Notice, and that those findings constitute conclusive evidence of an act of misconduct for the purpose of the Scheme and the formal complaint.

18. By the settlement agreement, the parties have (provisionally, and subject to the discretion of the Tribunal) agreed upon the sanction which should be imposed. If the Tribunal should not accept the proposals, then the recommendations as to sanctions shall be of no effect. The recommended sanction is that Mr. Corr shall be excluded from ICAS for a period of eight years, and that there shall be no other penalty nor any order as to costs.

19. The primary purpose of sanctions in a disciplinary context, we remind ourselves, is not to punish but to protect the public interest.

We consider that when deciding what sanctions should be imposed we should bear in mind the following:

a. the need to protect the public from Members whose conduct has fallen short of the standards reasonably to be expected of Members;
b. the need to maintain and promote public and market confidence in the accountancy profession and the quality of corporate reporting;
c. the need to declare and uphold proper standards of conduct amongst Members; and
d. the need to encourage high standards of conduct among Members.

20. We have considered with care (i) the principle of proportionality, that is that the sanction must be commensurate to the seriousness of the misconduct, and proportionate to all the circumstances of the case; (ii) the principle of deterrence, that is the necessity to deter Members who commit misconduct from further misconduct; and (iii) the need for the public to have confidence that the FRC takes firm action to protect the public interest and promote compliance with professional standards of conduct.

21. We turn to the issue of seriousness. It will be readily apparent from our description of the factual background and from the findings of the FSA that this is serious misconduct at the high end of the scale. The extent of the professional failings, the findings of lack of integrity, and the scale of the harm done to investors, and the impact upon public confidence, support that view.

22. The aggravating features of the misconduct include the following: there was repeated misconduct over a significant period; there were many opportunities to inform or consult the board of directors of Cattles; the scale of damage caused to Cattles; and the impact upon investors.

23. The mitigating features include the following: the events were over five years ago; the FSA has investigated the facts thoroughly and has imposed a substantial penalty and prohibition notice; full co-operation with Executive Counsel; and Mr. Corr's age, 59.

24. After balancing all of the factors, and considering the helpful submissions from Mr. Payne and Mr. Price, we have concluded that the proposed order is an appropriate sanction.

25. The unanimous ruling of the Tribunal is that Mr. Corr be excluded from ICAS for eight years; this order is to take effect 29 days after 18 February 2013; any application for re-admission after the eight year period shall not necessarily be approved and shall be considered by ICAS on its merits; there shall be no other penalty or order as to costs.

Richard Jones QC

A.D. Harverd.

Arthur Harverd FCA

Ian Abrams

19th February 2013