

Financial Reporting Council

The Executive Counsel to the Financial Reporting Council

and

David Wells

Settlement Agreement

1. This Settlement Agreement ("**Agreement**") is made on the 19th day of July 2016 between Gareth Rees QC as the Executive Counsel of the Financial Reporting Council ("FRC"), of 8th Floor, 125 London Wall, London, EC2Y 5AS ("**the Executive Counsel**") of the first part, and David Wells of the second part. The Executive Counsel and Mr Wells together are described as "**the Parties**".
2. The Agreement is evidenced by the signatures of the Executive Counsel on his own behalf and by Mr Wells on his own behalf.
3. The Formal Complaint alleging Misconduct against Mr Wells, as a member of the Institute of Chartered Accountants in England and Wales ("**ICAEW**"), was issued by the Executive Counsel under paragraph 7(11) of the FRC Accountancy Scheme ("**The Scheme**") on 22 September 2015. Subsequently, Executive Counsel applied to the Disciplinary Tribunal ("**the Tribunal**") to amend the Formal Complaint. The amended Formal Complaint (annexed to this Settlement Agreement) has been approved by the Tribunal.
4. The amended Formal Complaint concerns the conduct of Mr Wells, as Deputy Finance Director (with responsibility for Treasury functions) of Connaught plc ("**Connaught**"), regarding his role in relation to the incorrect accounting for a £4 million short-term loan made by the CEO of Connaught shortly before the 2010 half year end. The £4 million was not accounted for as a loan, but as operating cash-flow in its interim financial statements leading to: an overstatement of the cash conversion rate (one of a number of key measures for analysts and one upon which investors rely) of between 6 and 11 %; and the absence of any indication that the payment was from a 'related-party'.
5. Mr Wells admits Allegation 2 in the amended Formal Complaint.
6. The Parties recognise that the determination to be made in this case is a matter for the Tribunal, in accordance with paragraph 8(5) of the Scheme. The parties have agreed the following terms of settlement:
 - a) Exclusion from the ICAEW for a recommended period of 3 years.

- b) A sum of £125,198.82 to be paid by Mr Wells as a contribution towards the Executive Counsel's costs of, and incidental to, the investigation and the Formal Complaint.
 - c) The costs shall be paid not later than 28 days after the date when the Settlement Agreement takes effect.
7. In reaching this agreement, the Executive Counsel considered the following stages and took account of the following factors in accordance with the FRC's Sanctions Guidance:

Nature and Seriousness of the Misconduct

8. The Misconduct was not dishonest and did not involve a lack of integrity.
9. It was, however, serious for the following reasons:
- a. Connaught was a FTSE 250 listed company.
 - b. As Deputy FD and Group Treasurer, Mr Wells held a senior position at Connaught and had supervisory responsibilities.
 - c. The Misconduct calls into question the competence of Mr Wells to a significant extent.
 - d. The Misconduct was reckless.
 - e. The Misconduct involved a breach of the Fundamental Principle of Objectivity.
 - f. The Misconduct resulted in interim financial statements that were materially misleading in that cash flows from operating activities were overstated by £4 million, net cash generated from financing activities was understated by £4 million, the Tincknell loan monies were not disclosed as related party transactions and the cash conversion ratio was materially overstated.
 - g. The Misconduct risked the loss of significant sums of money, as investors might have bought shares in reliance on the erroneous positive statements about the company meeting the cash conversion target in the interim financial statements.
 - h. The Misconduct involved a failure to comply with professional standards.
 - i. The Misconduct potentially adversely affected a significant number of people in the United Kingdom (including creditors, shareholders and potential investors).

- j. The Misconduct could undermine confidence in the standards of conduct in general of Members and/or in financial reporting in the United Kingdom and/or in the profession generally.

Identification of Sanction

10. Having assessed the seriousness of the Misconduct, the Executive Counsel determined that Exclusion for a recommended period of 3 years 6 months would be an appropriate sanction. Executive Counsel has then taken into account any aggravating and mitigating factors that exist (to the extent that they have not already been taken into account in relation to the seriousness of the Misconduct). Executive Counsel has determined that there are no aggravating factors. Having considered the mitigating factors set out below, Executive Counsel has determined that an adjustment to sanction is appropriate by reducing the recommended period of exclusion to 3 years.

Mitigating Factors

11. a) The Misconduct took place 6 years ago and is unlikely to be repeated.
 - b) The six year investigation has already had a significant adverse impact on Mr Wells' ability to work, his career prospects and his family life.
 - c) Mr Wells has an otherwise unblemished compliance history and disciplinary record.

Deterrence

12. No adjustment for deterrence is required in this case.

Other considerations

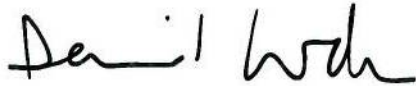
13. The Executive Counsel has taken into account Mr Wells' financial resources and Mr Wells' insurers have confirmed that his contribution towards costs will be paid by them.
14. If the Tribunal's decision is to approve the Agreement, including the sanction and costs set out at paragraph 6 above, then the Agreement shall take effect from the next working day after the date on which the notice of the decision is given to Mr Wells in accordance with paragraph 8(5) of the Scheme.
15. The Agreement and annex will remain confidential until publication in accordance with paragraph 8(6) of the Scheme.



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Gareth Rees QC
Executive Counsel

19/07/2016

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Date



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David Wells

18/07/2016

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Date