wirecard

A Case Study in Corporate Fraud and Governance Failure

Introduction to Wirecard

Founded: 1999 in Munich, Germany

- **Industry:** Financial services and payment processing
- **Services:** Electronic payments, banking, card issuance, mobile payments
- **Growth:** Expanded rapidly, entering the DAX 30 index in 2018

Business Model and Expansion

- **Core Business:** Processing online payments, initially for high-risk sectors
- **Expansion:** Acquisitions in Asia, Middle East, and North America
- **Claimed Strengths:** Innovative fintech solutions and global reach
- **Visual:** World map highlighting expansion regions (CNN)

Wirecard’s Financial Snapshot (Before Collapse in 2020)

Metric	Value (approx.)
Market Capitalization (peak)	€24 billion (2018)
Reported Revenue (2018)	€2 billion
Reported EBITDA (2018)	€565 million
Customers Served	250,000+ merchants
Global Employees	~5,000
Stock Exchange	DAX 30 (from 2018)

Major Competitors

Wirecard operated in the **payment processing and digital financial services sector**, competing with:

- **Adyen** (Netherlands) – Known for strong compliance and merchant onboarding.
- **PayPal** (USA) – The global leader in peer-to-peer and merchant payment platforms.
- **Square/Block** (USA) – Focused on point-of-sale and small business payments.
- **Worldline & Ingenico** (France) – Dominant in European payments.
- **Stripe** (USA) – Rising fast in online payments with developer-friendly APIs**.**

- ***Wirecard tried to emulate and outpace these firms by aggressively expanding globally—acquiring companies in Asia, Africa, and Latin America.***

Why the Management Was in a Hurry to Show Profit

The Wirecard scandal was driven by **multiple pressures**:

1. **Investor Expectations**: After replacing Commerzbank on the DAX 30 Index in 2018, Wirecard faced enormous expectations to deliver rapid, profitable growth—typical of tech darlings.
2. **Acquisitive Strategy**: To support its high valuation, it kept announcing acquisitions in less regulated markets (e.g., India, Singapore, UAE)—often without transparent financials.
3. **Inflated Earnings**: Allegedly fake profits were reported from "third-party acquiring" operations in Southeast Asia—these made up nearly half of Wirecard’s reported revenues by 2018.
4. **Executive Pressure**: CEO **Markus Braun** (also a major shareholder) was obsessed with stock price growth. It is alleged that CFO Jan Marsalek coordinated fake accounting practices to hide losses and exaggerate growth.

Date	Event	Description
1999	Foundation	Wirecard is established in Munich, Germany, focusing on payment processing services.
2002	Leadership Change	Markus Braun is appointed CEO, steering the company towards rapid expansion.
2005	Stock Market Entry	Wirecard goes public, listing on the Frankfurt Stock Exchange.
2008–2015	Early Allegations	Concerns arise regarding accounting practices, with reports suggesting inflated revenues and questionable acquisitions.
2016	Zatarra Research Report	An anonymous report alleges widespread fraud, leading to stock volatility.
2018	DAX Inclusion	Wirecard replaces Commerzbank in Germany's prestigious DAX 30 index, signaling investor confidence.
2019	Financial Times Investigation	A series of articles by the Financial Times uncovers evidence of accounting irregularities, prompting regulatory scrutiny.
Apr-20	KPMG Audit	An independent audit by KPMG fails to verify the existence of significant cash balances, raising red flags.
June 18, 2020	Missing Funds	Wirecard announces that €1.9 billion is unaccounted for, allegedly held in trustee accounts in the Philippines.
June 19, 2020	CEO Resignation	Markus Braun resigns amid the unfolding scandal.
June 22, 2020	Admission of Fraud	Wirecard admits that the missing funds likely do not exist.
June 23, 2020	Arrest	Markus Braun is arrested on charges of market manipulation and false accounting.
June 25, 2020	Insolvency Filing	Wirecard files for insolvency, owing creditors nearly €4 billion.
Aug-20	Asset Sale	Wirecard's core business is sold to Banco Santander for approximately €100 million.
Sep-20	Parliamentary Inquiry	The German parliament initiates an investigation into regulatory failures related to Wirecard.
2021–2023	Legal Proceedings	Trials commence for former executives, including Markus Braun. Jan Marsalek, former COO, remains a fugiti

Highlights

Emergence of the Scandal Initial

- **Allegations:** Financial Times reports in 2015 and 2019 highlighting accounting irregularities
- **Auditor Concerns:** KPMG's 2020 audit unable to verify €1.9 billion
- **Admission:** Wirecard acknowledges missing funds in June 2020

Key Stakeholders Affected

- **Investors:** Losses exceeding €20 billion
- **Employees:** Over 5,000 jobs impacted globally
- **Customers:** Disruption in payment services
- **Regulators:** Scrutiny over oversight failures

Role of German Authorities

- **BaFin:** Criticized for inadequate supervision and banning short-selling
- **Government Response:** Considered bailout days before collapse
- **Political Fallout:** Inquiries into oversight failures

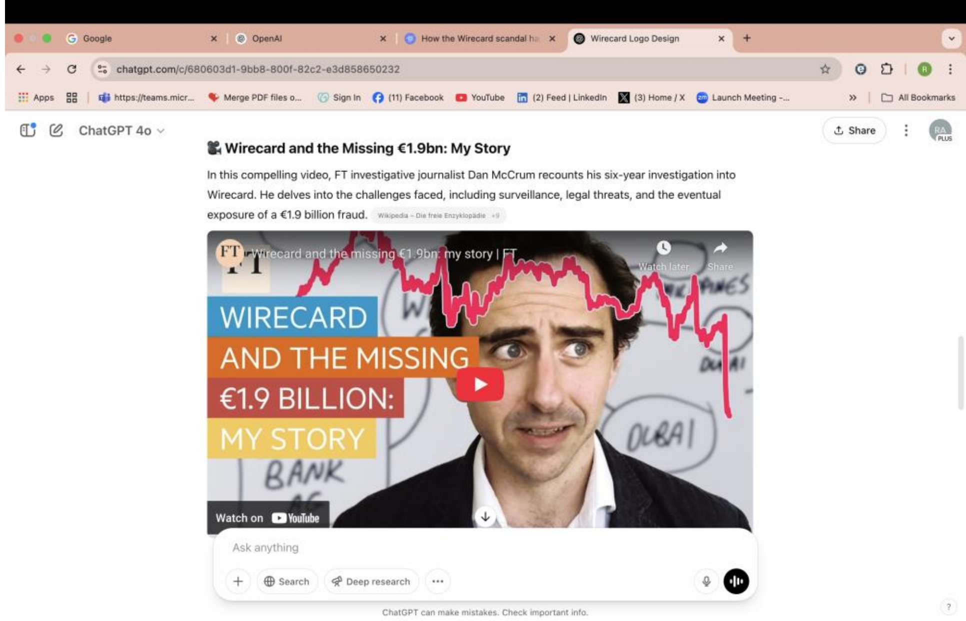
Financial Magnitude of the Fraud

- **Missing Funds:** €1.9 billion unaccounted for
- **Debt:** Wirecard owed creditors nearly €3.2 billion
- **Market Impact:** Stock value plummeted by over 90%

Legal Proceedings

- **Markus Braun:** Former CEO arrested and charged with fraud
- **Jan Marsalek:** Former COO remains a fugitive
- **Other Executives:** Charged with breach of trust and market manipulation

Media – whistle blower



Media Coverage

- **Documentaries:**
  - Netflix's "Skandal! Bringing Down Wirecard"
- **News Outlets:**
  - Financial Times' investigative series
  - Reuters' in-depth reports
- **Financial Times Timeline**: An in-depth timeline detailing Wirecard's rise and fall. *TXCPA+1Reuters+1*
- ***Reuters Overview**: A comprehensive look at the events leading to Wirecard's*
- collapse. Wikipedia+3Wikipedia, l'enciclopedia libera+3de.wikipedia.org+3
- **Business Insider Summary**: Key facts and figures about the Wirecard scandal.

Key Irregularities Highlighted

- **Fictitious Revenues**: Creation of fake transactions to inflate revenue figures.*Wikipedia, l'enciclopedia libera+5The Guardian+5de.wikipedia.org+5*
- **Non-Existent Cash Balances**: Reporting of €1.9 billion held in trustee accounts that did not exist.
- **Round-Tripping**: Artificially boosting sales through circular transactions among subsidiaries.
- **Auditor Complicity**: Ernst & Young failed to detect discrepancies over several years.
- **Regulatory Oversight Failures**: BaFin and other regulators did not act decisively despite red flags.

Role of Ernst & Young (EY) – Statutory Auditor (2009–2020)

•EY had audited Wirecard's books for over a decade.
•It **repeatedly signed off** on Wirecard's annual accounts—including the existence of the now-infamous **€1.9 billion** supposedly held in escrow accounts in the Philippines.
•EY's audits **relied heavily on documents provided by third parties**, which were later found to be forged.
•In **June 2020**, EY finally refused to certify the 2019 accounts when **they couldn't confirm the existence of the €1.9 billion**. This refusal triggered the collapse.
•EY faced global backlash for failing to perform basic audit procedures (like directly contacting the banks).

Role of KPMG – Independent Forensic Auditor (Oct 2019 – April 2020)

•Amid public scrutiny, Wirecard **voluntarily hired KPMG** to conduct an **independent investigation** of allegations made by whistleblowers and the Financial Times.
• **not auditing the annual financials**—they were doing a targeted probe into suspicious operations.
•KPMG's **final report (April 2020)** could **not verify the authenticity of €1 billion in profits** from third-party operations.
•They highlighted **incomplete documentation, lack of cooperation**, and **inability to trace the source of certain revenues**—essentially raising red flags.
•Wirecard tried to spin the report as exculpatory, but investors read between the lines—and soon after, the situation unraveled.

Failed governance _ Board failed completely in executing

- Board of directors contributed significantly to these failures, there was corporate fraud, deception, and financial misconduct.

  Dr. Markus Braun – Chief Executive Officer (CEO)

  Jan Marsalek – Chief Operating Officer (COO)

  Alexander von Knoop – Chief Financial Officer (CFO)

This team was at the helm during the period when the fraudulent activities occurred.

- Lack of transparency, accountability, and oversight
- In appropriate internal controls enabled company to violate accounting rules for many years
- Even supervisory board was ineffective as it breached its duty of care and failed to conduct independent internal investigation

- The supervisory board failed to prevent an inherent conflict of management interest where chair of a supervisory board was also the chair of audit committee, which was the blatant mistake done by management. This made audit committee ineffective in performing its fiduciary duties and responsibilities.

(***Wulf Matthias*** *held both the positions of* ***Chairman of the Supervisory Board*** *and* ***Chairman of the Audit Committee****. This dual role was established in early 2019 when Wirecard formed its Audit Committee. The company justified this arrangement by citing Mr. Matthias's extensive expertise and experience. However, this structure deviated from the recommendations of the German Corporate Governance Code, which advises against combining these two roles to maintain effective oversight and independence).*

- *When financial results are favourable, there is a probability of getting undesired desired food field, and this has exactly happened in this case*

- BAFIN , which was a responsible regulatory agency could not live up to the expectation to protect the interest of investor and market integrity

🧑‍💼 Management Board (Vorstand) – 2019

The Management Board was responsible for the company's day-to-day operations.

🧑‍⚖️ Supervisory Board (Aufsichtsrat) – 2019

Notably, until early 2019, **the Supervisory Board did not have any specialized committees**, which is atypical for a company of Wirecard's size and complexity. European Parliament

🏛️ Supervisory Board Committees (Established in Q1 2019)

In the first quarter of 2019, Wirecard established the following committees to enhance its governance structure:Wirecard

- **Audit Committee**: Initially chaired by Wulf Matthias.
- **Remuneration, Personnel and Nomination Committee**: Focused on executive compensation and board nominations.
- **Risk and Compliance Committee**: Tasked with overseeing risk management and compliance matters.*Wirecard+3Wirecard+3EJ Business & Management Research+3*

It's important to note that combining the roles of Chairman of the Supervisory Board and Chairman of the Audit Committee is generally discouraged to maintain checks and balances. Wirecard acknowledged this deviation from best practices, citing Matthias's expertise as justification. Wirecard

Lessons learnt

- **Corporate Governance:** **Importance of independent oversight**: Board should execute corporate governance by developing a framework and policies. The framework should ensure that all business decisions are made ethically and complied and should be as per the bylaws
- Committee should be formed and they should meet often and report to management to review the significant things happening in the company.
- **Regulatory Vigilance:** Need for proactive and transparent regulation: external auditor should verify the existence, complete and currency of companies financial statement
- **Investor Due Diligence:** Critical evaluation of financial statements
- Wirecard's collapse underscores **systemic failures**
- **Call to Action:** Implement robust checks to prevent future scandals

- Whistle blows not to be ignored . must be heard