Wirecard Scam

Why in news?

Wirecard (German company) collapsed recently, owing creditors more than €3.5 billion (almost $4 billion), after disclosing accounting irregularities.

What is Wirecard all about?

- Founded in 1999, Wirecard is a payment processor and financial services provider.
- It offered electronic payment transaction services, risk management as well as physical and virtual cards.
- At its peak, the company was valued at $28 billion.
- It was among the 30 listed companies on Germany's prestigious DAX stock index.
- It now holds the distinction of being the first DAX listed company to break, barely 2 years after it was first included.

What happened?

- **Reports** - For many years, there had been complaints of accounting irregularities against Wirecard.
- The matters came to light in 2019 after the Financial Times published a series of investigations into those claims.
- Media reports and whistleblowers alleged that the company had faked its sales transactions to inflate revenue and profits.
- Wirecard had then defended itself.
- It also aggressively hit back against critics, even suing the Financial Times.
- **Investigation** - Later in 2019, the accounting firm KPMG was called in as an outside auditor to run an independent probe.
- In April 2020, KPMG revealed that it could not verify cash balances of €1 billion.
- It was also unable to trace vast sums of advances to merchants.
- The findings led to calls for the removal of Wirecard's CEO Markus Braun.
- **Accounting firm** - The accounting firm EY had been Wirecard's auditor for over a decade.
- In June 2020, it refused to sign off on the company's 2019 accounts.
- It said that it had been provided false information about company accounts.

- It also said it could not confirm whether balances worth €1.9 billion existed.
- This is around a quarter of Wirecard's whole balance sheet.
- **Wirecard's claim** - Wirecard insisted that the missing money had been sent to two banks in the Philippines.
- But this is a claim that was refuted by both the banks as well as the country's central bank.
- The central bank said that the money had never entered its monetary system.
- **Recent events** - CEO Markus Braun resigned following the above.
- Three days later, the company admitted of a "prevailing likelihood" that the €1.9 billion did not exist.
- Soon, German authorities arrested Braun.
- Following this, Wirecard filed for insolvency, after talks with creditors failed.
- Following the bankruptcy announcement, EY said there were clear indications of an elaborate and sophisticated global fraud involving multiple parties around the world.
- It added that even the most robust and extended audit procedures might not uncover a collusive fraud.

What are the repercussions?

- Wirecard faked two-thirds of its sales, meaning there would be no way it would be able to repay all its debt.
- It owes its creditors around €3.5 billion, out of which €1.75 billion come from 15 banks plus a €500 million issued in bonds.
- The scandal is arguably Germany's biggest since Volkswagen's 'Dieselgate' crisis of 2015 and the Siemens corruption scandal of the late 2000s.
- It is now being called "Germany's Enron", referring to the 2001 accounting scam by the US energy company Enron.
- The head of Germany's federal financial regulatory authority BaFin has also called the Wirecard debacle a "total disaster".
- BaFin has itself faced criticism for its handling of the case, as well as for filing a criminal complaint against two journalists of the Financial Times.
- The accounting firm EY is also at the receiving end of public anger.
- The scandal has caused significant public outrage, and there have been calls to introduce serious regulatory reforms.

Source: The Indian Express



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