

Missing 1.9 bn euros plunges Wirecard into Enron-style scandal

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Last week, auditors Ernst & Young said 1.9 billion euros (\$2.1 billion) were missing from Wirecard's accounts

In what could be one of the biggest financial frauds of recent years, German payments provider Wirecard on Monday admitted 1.9 billion euros that auditors say are missing from its accounts likely "do not exist".

The scandal has already claimed the scalp of founder and chief executive Markus Braun, and adds to a series of recent German upsets.

Over the past decade, business headlines have been dominated by repeated financial infractions at Deutsche Bank and the "dieselgate" emissions fraud that has cost Volkswagen more than 30 billion euros.

In Wirecard's case, 1.9 billion euros (\$2.1 billion) supposedly sitting in trust accounts in the Philippines made up a quarter of the company's balance sheet.

But "on the basis of further examination... there is a prevailing likelihood that the bank trust account balances in the amount of 1.9 billion EUR do not exist," Wirecard said Monday.

The admission follows more than a year of reporting, especially by the Financial Times, on accounting irregularities in the company's Asian division.

Now Wirecard is in crisis talks with creditors and is "examining a broad range of possible further measures to ensure continuation of its business operations," including restructuring and selling off or simply halting some activities.

Interim CEO James Freis has tasked investment bank Houlihan Lokey with the tough negotiations.

But investors' confidence appeared to be evaporating fast, as shares in Wirecard were trading below 16 euros early Monday afternoon—down from almost 100 last Wednesday.

The company also announced late Monday that it had dismissed chief operating officer Jan Marsalek, days after suspending the top executive.

The head of German financial markets watchdog BaFin, Felix Hufeld, said "we are in the most horrifying situation I've ever seen a DAX company have," referring to the blue-chip stock index.

Meanwhile credit ratings agency Moody's withdrew its B3 evaluation of Wirecard's debt "predicated on insufficient independently verifiable financial information".

Success story

The scandal marks a fall from grace for the Bavarian start-up, set up in 1999 and riding a global wave of electronic payments to become the darling of the fintech scene.

From humble beginnings piping cash to porn and gambling sites, the firm entered the prestigious DAX 30 with great fanfare in 2018 after elbowing out traditional lender Commerzbank.

Now Wirecard's name is more frequently heard in association with Enron.

The Texan energy company's early-2000s collapse featuring accounting fraud, complicit auditors and political connections shook the US economy.

There could well be further revelations to come in the Wirecard scandal.

The missing cash was held to cover risks in trading supposedly carried out by third parties on Wirecard's behalf.

But the board said in its statement that it is unclear "whether, in which manner and to what extent" so-called third-party acquiring business "has actually been conducted" in recent years.

On Sunday, the Philippines central bank had said that none of the missing funds had entered the Philippine financial system. The names of two of the country's biggest banks—BDO and BPI—were used to try to mislead eventual investigators, it added.

Both BDO and BPI have said that Wirecard was neither a client nor a business partner, the central bank said, adding that it had warned Wirecard's auditors Ernst and Young.

Wirecard, which employs nearly 6,000 people, has for now withdrawn its preliminary results for 2019 and the first quarter of this year as well as financial targets for 2025.

Dogged by scandal

Wirecard execs initially pooh-poohed FT reporting about financial irregularities, and German financial markets watchdog BaFin said it was investigating the paper for potential ties to short-sellers betting against the shares.

But in the meantime, auditors KPMG were reviewing Wirecard's accounts for 2016-18.

BaFin ultimately filed charges with Munich prosecutors alleging "market manipulation" by the group's management board, targeting their attempts to present intermediate steps of the audit in a favourable light.

The filings "could have given misleading signals for the company's stock market price," prosecutors said.

The hammer blow came when auditors Ernst and Young said Thursday that 1.9 billion euros were missing from Wirecard's accounts, and Braun resigned the next day.

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