

DFF1 Wirecard Red-Flag Dashboard, SOLUTIONS

Facilitator key. Reward correct severity *and* a specific reason. The lesson: all four pre-2020 flags were publicly disclosed, so the failure was integration, not information.

Q1. Classify the 6 disclosures.

Solution. (i) **RED**: FT is a Tier-1 source; round-tripping allegations are by definition fraud indicators, not “journalist opinion”. (ii) **RED**: an auditor accepting an unconfirmed balance worth 35% of group cash is an audit failure, and a flag on the auditor too. (iii) **RED**: customer/geographic concentration above 50% in opaque jurisdictions is the textbook Enron-2001 fingerprint; no fintech grows this way organically. (iv) **RED**: a Special Audit ordered by the company itself that cannot verify €1B is a confession. (v) **YELLOW on Wirecard, RED on BaFin**: banning short-sellers who were publishing evidence of fraud is a governance failure at the regulator, widening the fraud window by about 15 months. (vi) **RED (terminal)**.

Q2. Cumulative score and threshold.

Solution. Sum: $3+3+3+3+1+3 = 16$ over 4 years. **Threshold**: most bank supervisors use an implicit score of about 6 (two serious concurrent red flags in one year) to open a Section 44 KWG investigation in Germany. Wirecard crossed it by **end of 2018** (flags i+ii+iii = 9). The 2018 to 2020 delay is the core BaFin failure and the basis of the 2021 Bundestag inquiry. The score was not hidden: all four pre-2020 flags were publicly disclosed.

Q3. A misaligned third-party actor.

Solution. EY (auditor): €50 to 100M/year in fees from Wirecard; confirming the €1.9B balance would have cost €5 to 10M in extra work and risked losing the client, a textbook principal-agent failure of the fee-dependent big-4 model. Other defensible answers: (i) **DAX index providers**, Wirecard’s Sept 2018 DAX entry forced index funds to buy after flag (iii) was public; (ii) **sell-side analysts**, 19 of 25 still had BUY ratings at the collapse; (iii) **DPR**, Germany’s accounting enforcer is funded 80% by listed companies; (iv) **Bundestag**, 15 months to hold hearings after the collapse.