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ECONOMICS DEPARTMENT  
ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE

Germany Economic Survey 2020

Chap. 1: Key Policy Insights

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Any questions that delegations may wish to raise should be addressed to:

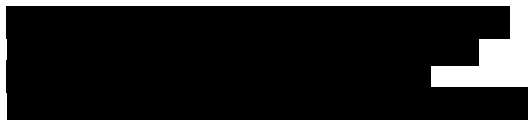
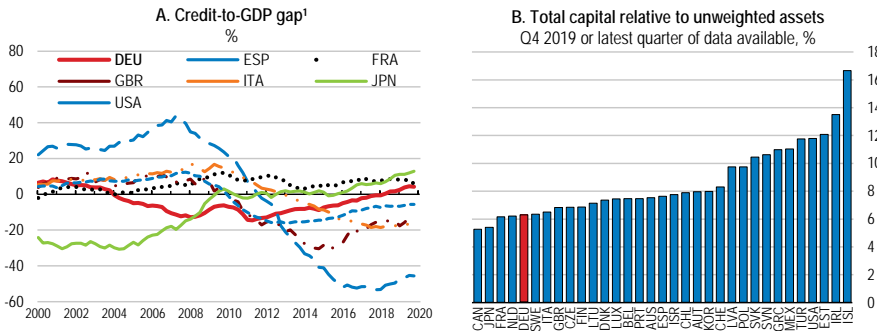


Figure 1.11. Financial stability risks increased prior to the crisis and banks are highly leveraged



1. Credit-to-GDP gap is defined as the difference between the credit-to-GDP ratio and its long-term trend; in percentage points. Source: IMF Financial Soundness Indicators database; BIS credit-to-GDP gap statistics.

**Box 1.3. Government plans to reform financial regulation following the collapse of Wirecard**

A multiyear accounting fraud forced Wirecard – a fast-growing German fintech provider of digital payment services – to file for insolvency in June 2020 after its auditor for the last 10 years stated that it could not confirm the existence of EUR 1.9 billion in cash balances on trust accounts. Most of Wirecard’s reported revenues came from three third party acquiring-partners, which processed Wirecard payment transactions outside of Europe due to regulatory reasons such as lack of licenses or other potential risks. ~~Inspections regarding the sources and accuracy of these revenues were flawed. In addition, unsecured lending to two of the partners was made in late 2018, with no evaluation of the financial circumstances of these partners.~~ In February 2019, after negative publications led to a sharp drop in the stock price, the Federal Financial Supervisory Authority (BaFin) investigated allegations of market manipulation and introduced a two-month ban of short selling, citing Wirecard’s importance and threat to market confidence. Eventually it took the intervention of banks and authorities in the Philippines, where the company had claimed to hold cash, to uncover the fraud.

Wirecard’s collapse revealed possible weaknesses in accounting and financial regulation. The Financial Reporting Enforcement Panel (FREP), a private sector body monitoring financial reports of listed companies, was late to intervene and is under-resourced. BaFin can ask FREP to open a probe into a company’s financial reports but has no power over the actual process, as it must wait for a FREP probe result before it can start its investigation. ~~Additionally, Wirecard was classified as a technology group and therefore was not subject to regulation by the European financial regulators (the ECB).~~ The government presented a 16-point “action plan” to strengthen financial regulation, give BaFin new authority and force companies to change their auditors more frequently. The plan will also strengthen APAS, the body that oversees auditing firms in Germany, and give it the power to impose stricter sanctions on rule-breakers.

Source: The Financial Times, <https://www.ft.com/wirecard>.

**Kommentiert [AD1]:** Unclear, which inspections (annual auditor?) and lendings are meant. It should also be noted that only the credit business of Wirecard Bank is subject to regulatory banking requirements. We propose to delete the sentences to avoid possible misunderstandings.

**Kommentiert [AD2]:** Already before there was an independent investigation by KPMG that could not confirm the existence of certain revenues with third parties which was taken into account by EY for the audit of the financial statement 2019 of Wirecard AG. The test should be amended accordingly.

**Kommentiert [AD3]:** The investigations are still ongoing. We should avoid to jumping to conclusions.

**Kommentiert [AD4]:** Should be deleted as it gives the impression that the assessment was flawed. German supervisors assessed Wirecard AG to be not a financial holding company based on the structure of the group. Therefore, it was not included in a consolidated supervision with Wirecard Bank AG as the superordinated company. This was done fully in line with regulatory (CRR). Moreover, the consolidated supervision would have been carried out on national level as Wirecard Bank AG is a so called less significant institution under direct supervision by BaFin and Deutsche Bundesbank.