## Edo's EY accounting

4th April 2020

**KPMG clearly disagrees with Wirecard about what constitutes CASH. Today we reveal that Wirecard's key accounting opinion justifying that the escrow accounts should be treated as cash was first penned by the now absconded Edo Kurniawan, just 4 days before the 2016 audit was signed. Can EY still support this accounting treatment, or have they overstated Wirecard's cash balance by >€1bn?**

### The accounting and the email

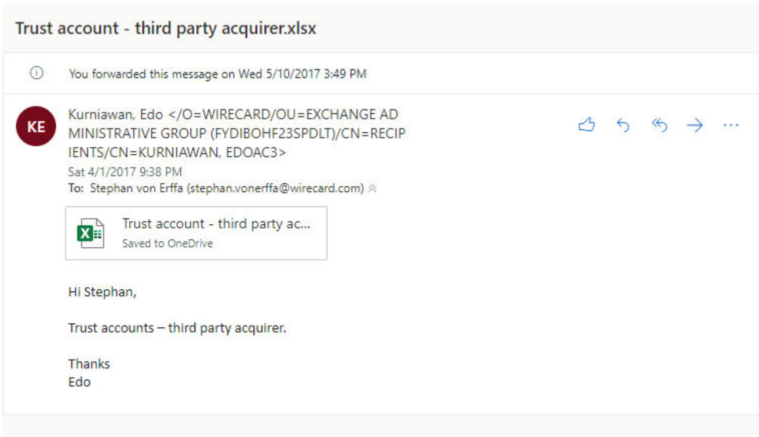
One of the most impactful aspects of KPMG's report is its focus on cash. Where is it, to whom does it belong and can KPMG verify it? Astonishingly, KPMG was unable to verify even the existence of a massive >€1bn in "cash".

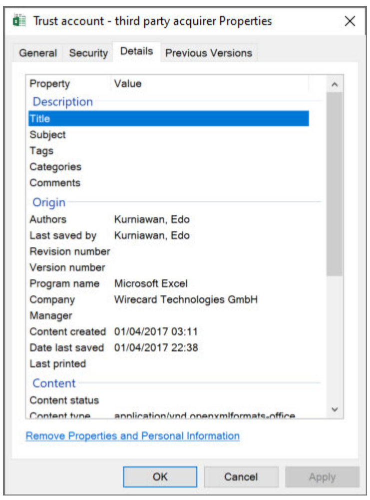
In section 1.3.1.4.3, (page 33 of the German report), KPMG disagrees with Wirecard's definition of cash, arguing that escrow accounts held by trustees should instead be treated as "other financial assets". In an attempt to justify this accounting treatment, Wirecard had submitted to KPMG a "draft expert opinion" (why a draft?), that they claimed demonstrated to KPMG that this treatment was appropriate. EY had clearly endorsed with this accounting treatment in the past.

For the 2016 annual report, Wirecard persuaded EY that it was appropriate to treat escrow accounts managed by trustees as cash for financial reporting purposes. This is a critical point as at the time, cash conversion was a key concern given accounting concerns raised by the FT.

Today we can reveal a Wirecard internal email sent from Edo Kurniawan to Steffan von Erffa (the deputy CFO) on the 1st of April 2017, **four days before the annual report was signed by EY**, containing a spreadsheet created by Edo that same day. The spreadsheet is titled "Trust Account – third party acquirer" and appears to be an accounting opinion arguing that cash held in trust accounts should be treated as cash for financial reporting purposes.

**Please find Edo's accounting opinion** at the bottom of this document and see below for screenshots of the email and the spreadsheet properties.



KPMG clearly disagrees with Edo's opinion. We wonder if today, EY still think this accounting treatment is appropriate? **A reminder that Edo fled Singapore after the police raid that focused on his creative accounting and money laundering.**

**Cash or no cash?**

KPMG has pointed out that the funds in the escrow accounts should not have been treated as cash. But the problem is exacerbated when you consider the concerns KPMG raises earlier in the report about the trustees managing these accounts. Here is a material amount of, supposedly, cash, and yet it was being "managed" without any meaningful oversight.

The report highlights that for Trustee 1, Wirecard does not have any financial statements, assessments of economic circumstances, or reliability assessments. Additional information on Trustee 1 is thin. Trustee 2 is referred to as a law firm, but the absence of any similar description for Trustee 1 suggests it is neither a bank nor law firm. This leads to so many further questions. Why were billions of undocumented revenues and profits, from three apparently independent partners, flowing into one undocumented trustee for so long? How can EY be satisfied that this is as described?

Furthermore, within weeks of KPMG starting its investigation, Trustee 1 terminated its long-dated relationship with Wirecard, and no longer responds to requests from Wirecard. The new trustee, recommended by Trustee 1 (WTF), is now allegedly managing €1B of cash without written contractual agreements and again, Wirecard has no reliability assessments in place, and no alternatives were considered.

So today, the so-called "cash", the origination of which remains undocumented, is held by a different, equally unproven, trustee. Supposedly, this cash is held at two banks that were unable to verify Wirecard claims. KPMG was not provided with bank confirmations of cash, a critical component of any audit. Instead they were given mere scans of bank statements, with Wirecard claiming nonsensical coronavirus delays to getting direct bank confirmations. This is a truly bizarre situation.

**MCA – KPMG's findings bear no similarity to Wirecard claims.**

We've been asked for our thoughts on KPMG's findings on MCA. The KPMG report clearly and thoroughly vindicates our detailed work on MCA. Contrary to repeated statements by management, KPMG found that there was no lending directly to merchants from the Wirecard balance sheet in Brazil or Turkey, and Wirecard does appear to have made a loan to Ocap for the purposes of MCA.

Our evidence strongly suggests that management repeatedly and deliberately misled investors, claiming they were lending money directly to merchants, and the risk was low because they could see all of the merchants' transaction volumes. KPMG clearly showed Management's statements to be nonsense; Wirecard was neither lending money directly to merchants, nor did they know who the merchants were.

Instead it looks like Wirecard's TPA could not pay Wirecard all of their overdue receivables for profits they were apparently generating to hold at Trustee 1, so instead of demanding payment, Wirecard made unsecured loans to them and labelled it as MCA. Loaning money to unsecured partners to pay off their outstanding receivables but claiming the funds have a different purpose is in our view clear round-tripping.

**Edo’s accounting opinion in full**

**Summary**

Trust accounts held by 3rd party acquirer are reported on assets side of Wirecard consolidated financial statement as cash and cash equivalents. These trust accounts in economic term are floating reserves to be held for anticipating chargeback fee, card fee and other scheme fee as part of the main business with 3rd party acquirer which is processing payment business.

Further for the argument whether the trust accounts is considered as restricted or not (IAS 1.66 and IAS 7.6), management shall evaluate from the objective and nature of the account and how it relate to business (IAS 7.11). Moreover, the evaluation further is required for 2 perspective liquidity and risk (IAS 7.6 & IAS 1.66). The trust accounts has high liquidity, considering the nature above which commercially due on day to day basis due to commercial arrangement of payment industry itself (short cash cycle between acquirer and issuer and scheme). In slightly detail to explain how liquidity of trust accounts, it is calculated based on certain % towards transaction volume happened daily. As result, the balance will keep volatile and it has daily cycle cash movement. Further in considering the risk approach Trust accounts risk is relied on the % held. The % cash held in this nature has similar economic term on cash spend to acquire inventory which closely related to revenue generation from business operation.

Thus, based on the fact above, Management believe that trust accounts held in 3rd party acquiring business is cash equivalent, part of operating cash flow and not restricted.

| **IAS Reference** | |
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| Definition of cash equivalents are short term highly liquid investment that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value | IAS 7.6 |
| Operating activities are the principal revenue producing activities of the entity and other activities that are not investing or financing activities | IAS 7.6 |
| An entity presents its cash flows from operating, investing and financing activites in a manner which is most appropriate to its business | IAS 7.11 |
| An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity. | IAS 7.14 |
| “… the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.” | IAS 1.66 |