

Osborne Clarke's 2022 Future of Financial Services week

Stronger regulation – lessons learned from Wirecard

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Speaking with you today



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Introduction



Where the story started...

BUSINESS NEWS JANUARY 30, 2019 / 3:45 PM / UPDATED 3 YEARS AGO

Wirecard denies FT report alleging financial wrongdoing

Wirecard: Former boss arrested over €1.9bn scandal

🕒 23 June 2020

Wirecard: Scandal-hit firm files for insolvency

🕒 25 June 2020

BANKS JUNE 26, 2020 / 10:21 AM / UPDATED 2 YEARS AGO

EU investigating German watchdog over Wirecard collapse



‘The Enron of Germany’: Wirecard scandal casts a shadow on corporate governance

PUBLISHED MON, JUN 29 2020 4:37 AM EDT | UPDATED MON, JUN 29 2020 5:22 AM EDT

Repercussions of the German Wirecard scandal

Impact on BaFin

- Reputational damage
- Head and deputy stepped down (Jan 2021)
- Criminal investigation into how BaFin oversaw Wirecard, potential insider dealing

Impact on EY

- Reputational damage
- Head of EY Germany stepped down (Feb 2021)
- Investing billions of dollars to improve quality of audits

Wider impact

- Damage to confidence in auditors and regulators more broadly
- Negative impact on reputation and perceived trustworthiness of payments and fintech
- Germany has introduced new requirements for corporate governance and audits of listed companies
- EU seeking more independence for financial regulators

Investigations and prosecutions continue

- Investors' claims against BaFin dismissed (Jan 2022)
- Money laundering charges brought against individual associated with Wirecard (Dec 2021)
- Former COO Jan Marsalek remains missing



Introduction to Wirecard and its solvent wind-down

Wirecard Card Solutions Limited (WDCS) – May 2020

- UK entity, FCA authorised EMI, part of the Wirecard group
- Established in 2016, on acquisition of Newcastle Building Society's prepaid cards business
- Grown to one of the largest prepaid card issuers in Europe:
 - over 500 live programmes
 - around 5 million cards in active circulation
 - over £550 million in safeguarded funds
 - revenue for FY19 just shy of £90 million
- Also had an acquiring business

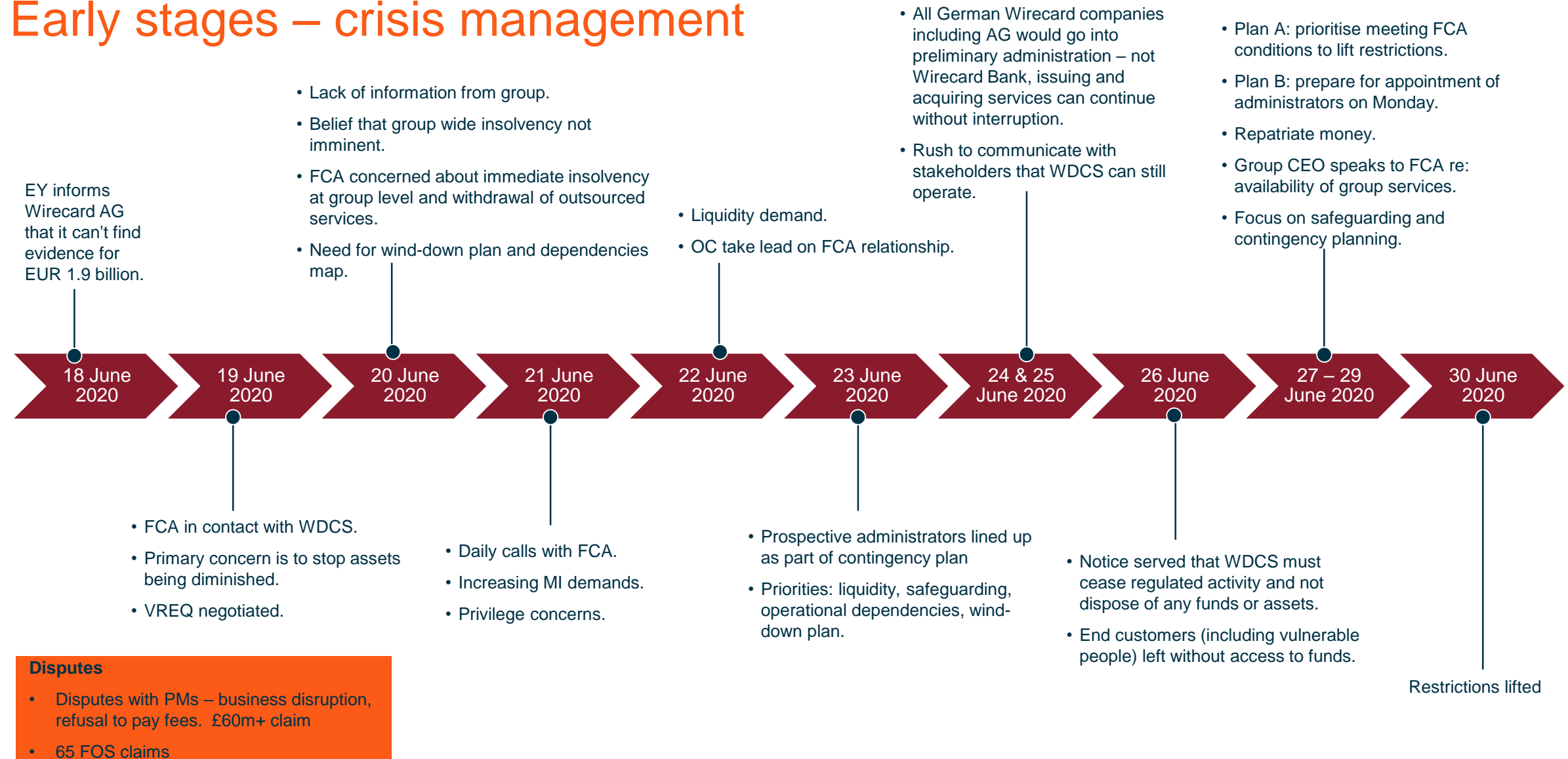
WDCS – Solvent wind-down

- Events affecting Wirecard group caused irreparable damage affecting WDCS's long term viability
- Solvent wind-down successfully achieved in under six months, with a combination of:
 - programme migrations
 - sale of part of business to Railsbank/PayrNet
 - closure of a very small number of mostly legacy programmes
- All credit to management team led by Tom Jennings and Andrea Farace, supported by Paul Newman (and Osborne Clarke)
- ... and to FCA supervisory team
- No loss of any safeguarded funds
- FCA permissions cancelled with effect 3 November 2021
- Less than 30 FOS cases ongoing
- No redundancies

2 Early stages – crisis management



Early stages – crisis management

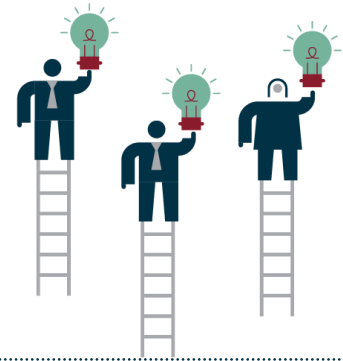


3 Insolvency issues and implementing strategy



Insolvency issues and implementing strategy

- Current status – WDCS in members' voluntary liquidation since November 2021
- Directors' duties
 - Wrongful trading
 - Preference
 - Financial status
 - Directors' & Officers' Liability Insurance
- Skilled Person Monitoring Reports – compliance with FCA's Requirement Notice of June 2020
- Safeguarded Monies / Statutory Trust – *Berkley Applegate*

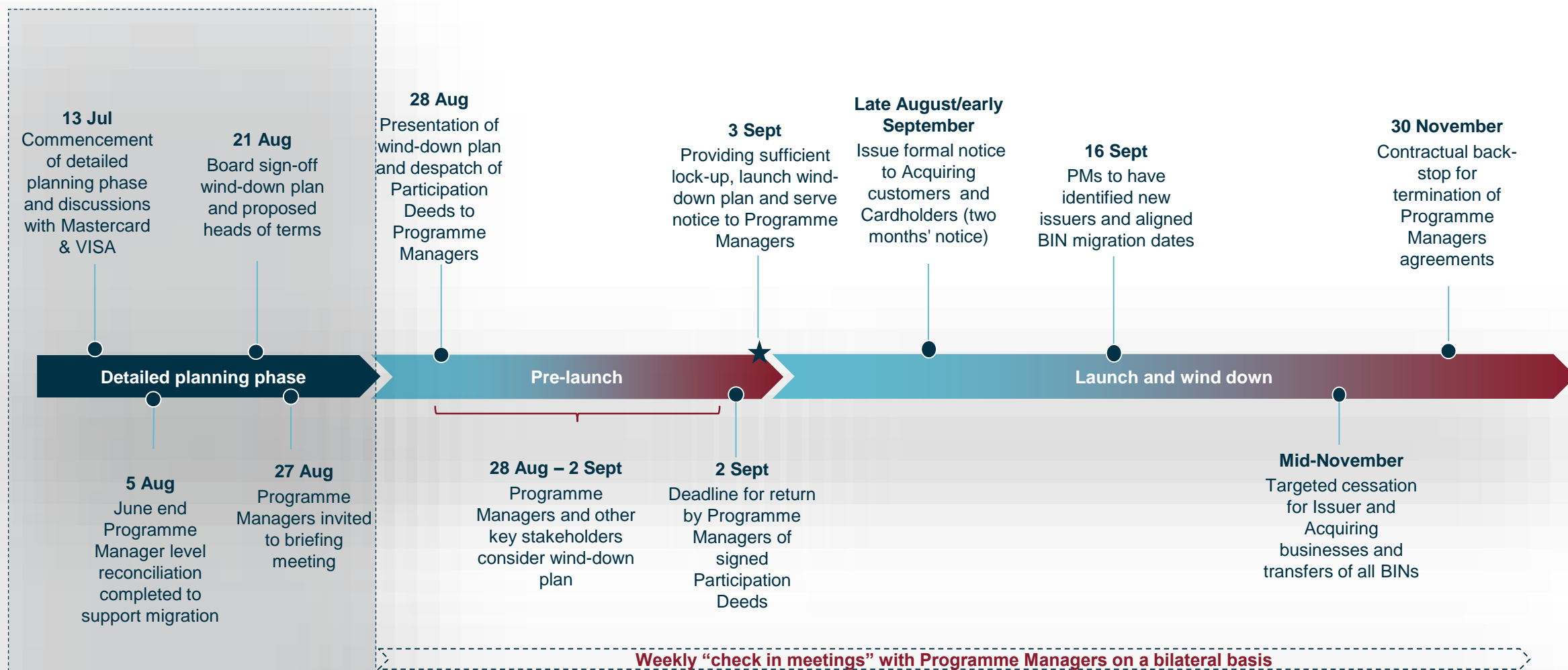


Insolvency issues and implementing strategy

- Contingency planning
 - Administration
 - Special Administration – Banking Act 2009
 - Compulsory Liquidation and Special Managers
 - Compulsory Liquidation with no Special Managers
- Solvent wind-down



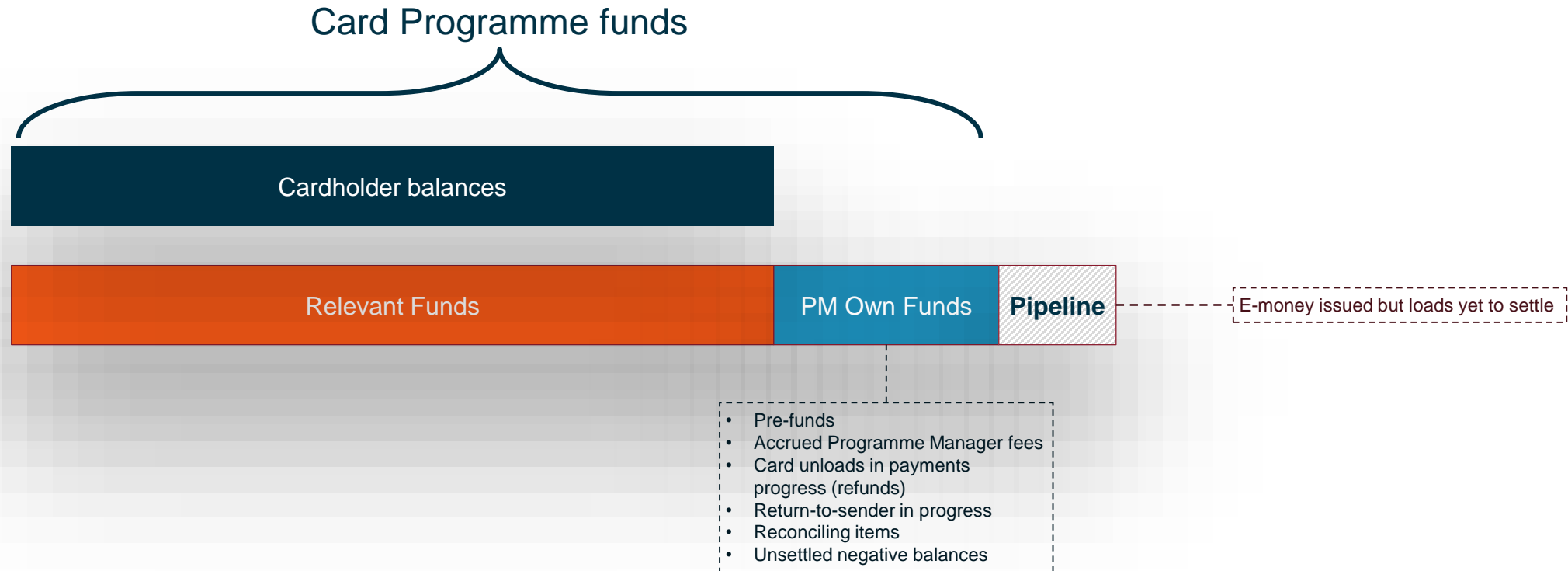
Key phases to the solvent wind-down



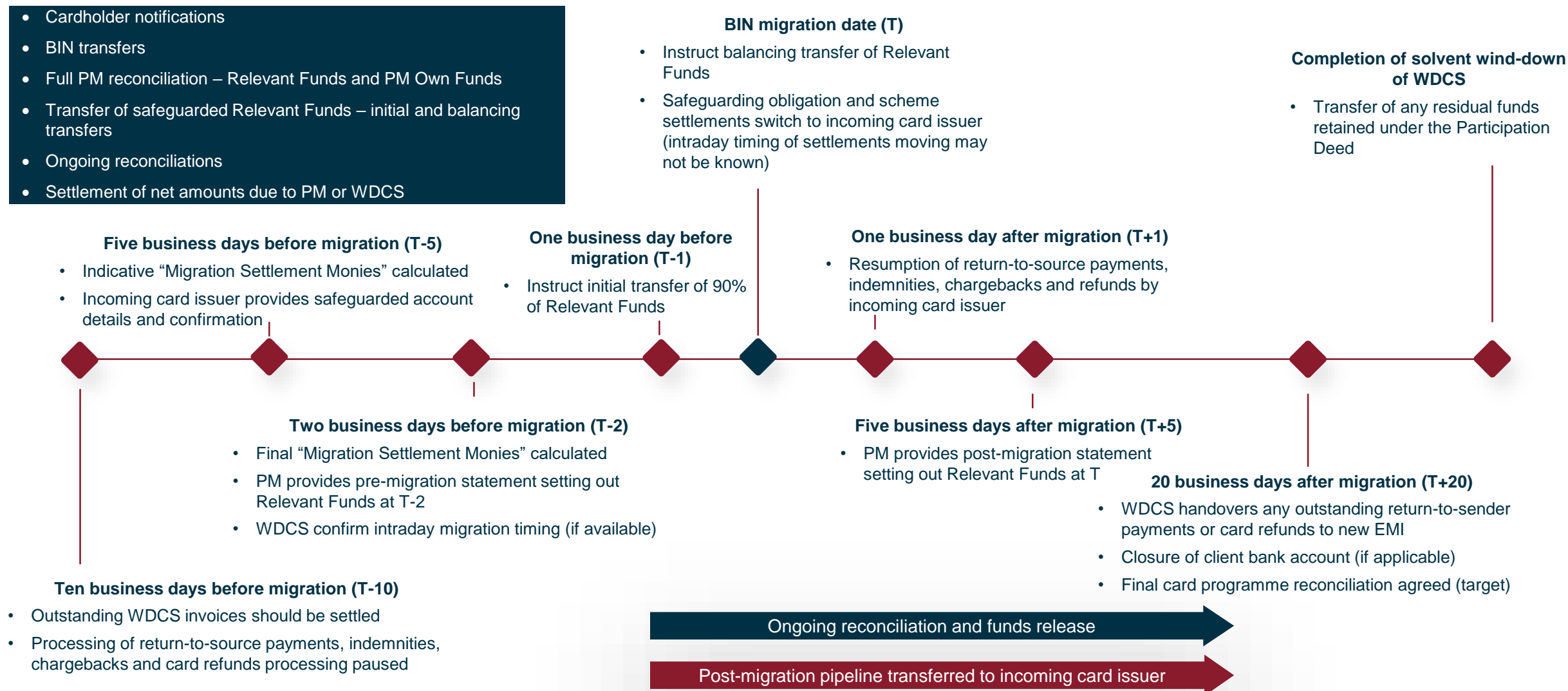
4 Migration



Migration - Card Programme funds



Migration – Process and timeline



5 Concluding remarks



Concluding remarks – UK FCA perspective

- Stronger regulation and challenge to FinTechs
- Clear tension between encouraging innovation and consumer protection
- Ambiguities remain in safeguarding rules and insolvency legislation
- Clear FCA focus on:
 - the right consumer outcomes
 - the specific regulated entity and what's within its control (e.g. group-wide resources)
 - (immediate) access to and delivery up of documentation (systems)
 - wind-down plans
 - operational resilience



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Any questions?

