

# RIVEMONT

## Rivemont - Weekly Update #259

*November 30th, 2022*

*Rivemont is the portfolio manager responsible for the investment decisions of the Rivemont Crypto Fund.*

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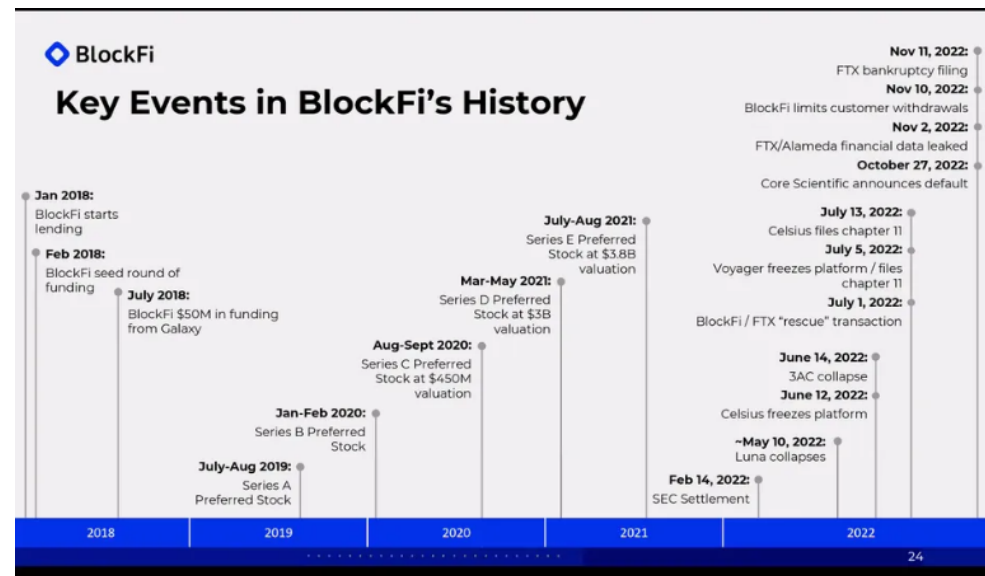
The domino effect following the bankruptcy of crypto giant FTX was the theme of our most recent communication. Another one of those pieces fell apart this week, with crypto lender BlockFi announcing it would file for bankruptcy. BlockFi said in a statement Monday that it would use the Chapter 11 process to "focus on collecting all obligations owed to BlockFi by its counterparties, including FTX and associated legal entities," adding that collections will likely be delayed by FTX's own bankruptcy. Chapter 11 allows a company to continue operating while developing a plan to repay creditors.

It was later learned during the week that BlockFi owes more than \$1 billion to

three of its major creditors, including \$30 million it still has to pay to the U.S. Securities and Exchange Commission as part of the \$100 million settlement announced in February. The SEC as a creditor of a crypto firm, we've seen it all! During BlockFi's first-day bankruptcy hearing, the company revealed that FTX and Alameda Research owe it more than \$1 billion including \$671 million on a now-defaulted loan to Alameda and \$355 million in frozen funds on the company's cryptocurrency exchange.

According to BlockFi's lawyers, it's clear that Terra's collapse was the 1<sup>st</sup> domino in a now long line. When Terra's stablecoin UST lost parity with the U.S. dollar, \$40 billion in funds disappeared. In the months that followed, it became clear that hedge fund Three Arrows Capital had an overexposure to Terra. As a result, broker Voyager Digital issued a notice of default for \$661 million in unpaid debt owed to it by 3AC. A few days later, the hedge fund filed for bankruptcy. Then Voyager followed suit within a week. Celsius Network was swept up in the wave a few days later. BlockFi was also exposed to 3AC, but managed to stay in business thanks to the revolving credit line it received from FTX. The FTX bankruptcy was the final nail in the coffin for the company.

FTX representatives filed this timeline at the hearing:



Unlike the previous ones, this new bankruptcy of a major player in the cryptocurrency industry had almost no effect on the markets. It must be said that the latter was presumed at such a level that its consequences were already "priced in".

What about Genesis, probably the most important domino to remain standing to avoid a new cascade of bankruptcies? It was learned yesterday, as reported by Bloomberg News, that Genesis Global Trading's creditors have hired restructuring lawyers to find a way to prevent the cryptocurrency broker from having to close down. Some creditors are working with law firm Proskauer Rose, while others have retained Kirkland & Ellis. In short, as of today, it's still an open story, and thus still a risk to the markets.

However, not everything is grey in the news this week. Indeed, in response to this shock wave, the most solid players in the industry are seeking to reassure. Giant Coinbase has revealed the amount of Bitcoin in its reserves in an effort to be transparent after the collapse of its rival FTX. In a series of tweets, Coinbase CEO Brian Armstrong says the platform holds about 2 million BTC, which translates to \$33.6 billion at the current bitcoin price of \$16,800. "If you see FUD [fear, uncertainty, and doubt] out there – remember, our financials are

public (we're a public company.) We hold ~2 million BTC. ~\$39.9 billion worth as of 9/30" said Armstrong, adding that "We all need to come together to build this industry in a responsible way going forward. Be wary of false information."

Previously, Armstrong expressed support for Ethereum co-creator Vitalik Buterin's idea of verifying the creditworthiness of cryptocurrency exchanges using the Merkle tree and zk-SNARK (zero-knowledge succinct non-interactive argument of knowledge), saying that blockchain accounting will be a crucial element of the cryptoeconomy. To that end, Binance is leading the parade, having this week announced the imminent unveiling of its proof-of-reserves system. According to the official announcement, the launch of the PoR system will begin with bitcoin first, while other tokens and networks will be added in the next two weeks. "When we say proof of reserves, we are specifically referring to the assets we hold in custody for users," Binance said. "This means we are showing evidence that Binance has funds that cover all of our users' assets 1:1, as well as some reserves." Specifically, Binance provided a snapshot of account balances and its own bitcoin reserves as of 23:59 UTC on Nov. 22, 2022. The exchange claims to have 582,485 BTC in its reserves, while its users have a net balance of 575,742 BTC - giving Binance a reserve ratio of 101%. Buterin's proposed solution is also now in place.

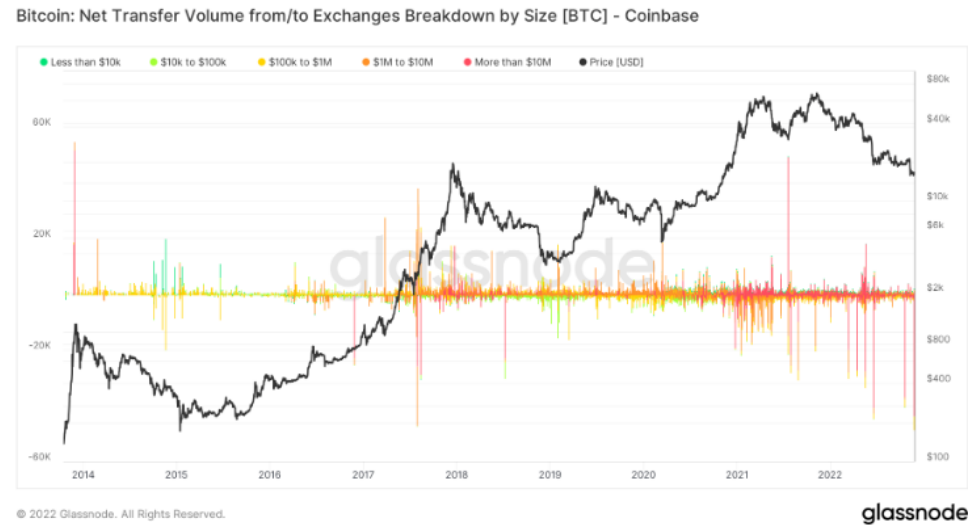
However, this solution is not unanimously supported by the industry. Kraken exchange CEO Jesse Powell says that such a system is really just hot air.



The news didn't make as much noise as it could have in the current market environment, but it's still significant. Investment giant Fidelity has officially launched its new cryptocurrency trading accounts for individuals. "Fidelity Crypto is your opportunity to buy and sell bitcoin and ethereum in the Fidelity Investments App," the company wrote on their website, promising clients the ability "to trade crypto with as little as \$1 while also having an integrated view of both your traditional and crypto investments." The platform promises "commission-free" crypto trading, but the company said a 1% spread will be factored into the execution price of each trade. Fidelity said that 1% is the maximum rate, and that they can choose to apply a lower percentage spread or no spread at all at first. Fidelity Crypto will be available in 35 U.S. states at this time, including California, New York, Texas, Florida, Massachusetts, Pennsylvania and New Jersey.

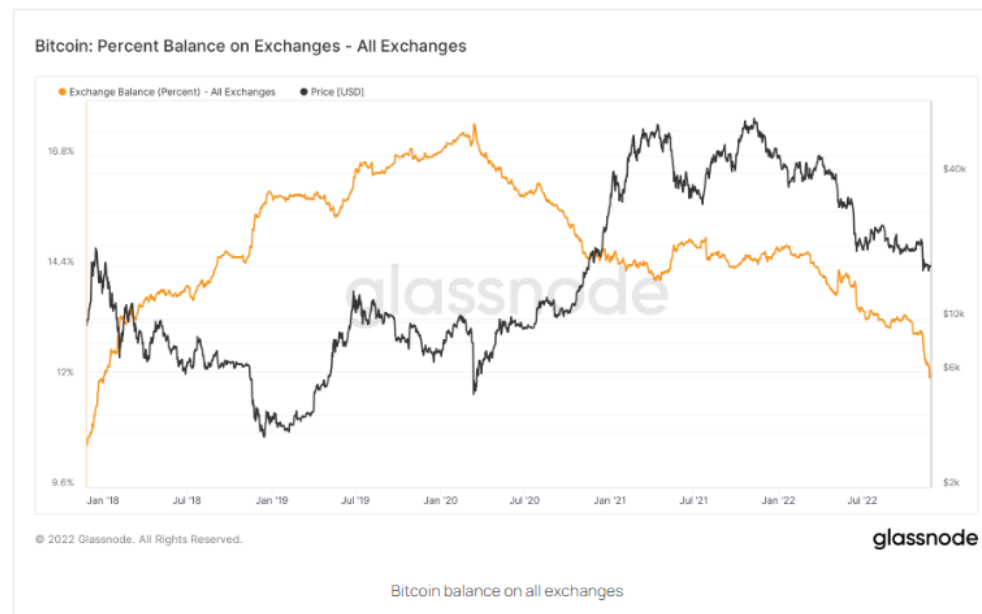
On-chain, the trend of exiting exchanges continues. On November 24th, 50,000 BTC were withdrawn from Coinbase. The amount was equivalent to over \$800 million, which was the second largest withdrawal of BTC from Coinbase in 2022. This migration to cold wallets is seen as a positive indicator, with fewer

players looking to actively trade the asset.



Bitcoin Net Transfer Volume from/to Coinbase Exchange

This trend is obviously not unique to Coinbase. The chart below shows the balance of BTC on all exchanges since January 2018, and a significant drop can be seen since January 2022.



The rebound of the last two days for bitcoin gives speculators hope for a confirmation of the "double bottom". One still needs to close a day above \$17,300 to hope for a real rebound. However, the technical picture appears to be of secondary importance at the moment. It is mainly the fate of the players linked to the bankruptcy domino effect that is attracting attention, as well as the macroeconomic picture in the inflationary environment affecting all global markets, which is likely to direct the direction of prices.

The fund has resumed some cautious positions, but remains defensively positioned. We are currently exposed to 38% BTC, 28% ETH, 4% MATIC and 30% cash.

Rivemont Investments, manager of the Rivemont Crypto Fund.

*The presented information is as of November 30th, 2022, unless otherwise indicated and is provided for information purposes only. The information comes from sources that we believe are reliable, but not guaranteed. This statement does not provide financial, legal or tax advice. Rivemont*

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