

RIVEMONT

Rivemont - Weekly Update #261

December 14th, 2022

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

After two gloomy weeks in terms of both news and market action, the one that just ended for the Rivemont Crypto Fund was, on the contrary, full of twists and turns. In addition to the breaking of an important resistance for the bitcoin price in the vein of lower than estimated CPI data in the US, it is still the shockwave of the FTX exchange bankruptcy that is causing the ink to flow.

The news of the hour first. Sam Bankman-Fried, former CEO of FTX, was (finally) arrested in the Bahamas on Monday. The arrest came after the U.S. filed criminal charges against SBF, with the expectation that the U.S. would ask the Bahamas to extradite the man. That request did indeed follow immediately.

The U.S. Securities and Exchange Commission yesterday formally announced that it was pursuing Bankman-Fried on eight different counts. The official statement reads:

“According to the SEC’s complaint, since at least May 2019, FTX, based in The Bahamas, raised more than \$1.8 billion from equity investors, including approximately \$1.1 billion from approximately 90 U.S.-based investors. In his representations to investors, Bankman-Fried promoted FTX as a safe, responsible crypto asset trading platform, specifically touting FTX’s sophisticated, automated risk measures to protect customer assets. The complaint alleges that, in reality, Bankman-Fried orchestrated a years-long fraud to conceal from FTX’s investors (1) the undisclosed diversion of FTX customers’ funds to Alameda Research LLC, his privately-held crypto hedge fund; (2) the undisclosed special treatment afforded to Alameda on the FTX platform, including providing Alameda with a virtually unlimited “line of credit” funded by the platform’s customers and exempting Alameda from certain key FTX risk mitigation measures; and (3) undisclosed risk stemming from FTX’s exposure to Alameda’s significant holdings of overvalued, illiquid assets such as FTX-affiliated tokens. The complaint further alleges that Bankman-Fried used commingled FTX customers’ funds at Alameda to make undisclosed venture investments, lavish real estate purchases, and large political donations.”

The eight counts filed by U.S. prosecutors include wire fraud and conspiracy to launder money, among others. It should be noted that this arrest comes at the same time that SBF was scheduled to appear, not in person of course, before the U.S. House of Representatives' Financial Services Committee. Committee chair Maxine Waters questioned the timing. "The public has been looking forward to getting these answers under oath before Congress, and the timing of this arrest deprives the public of that opportunity," she said.

SBF made an initial appearance before Judge Joyann Ferguson-Pratt yesterday. She ordered a hearing on his extradition to the United States on February 8th. His lawyers initially asked the judge to consider releasing him on \$250,000

bail, arguing that he should be able to take regular medication, including the over-the-counter allergy medication Zyrtec, and follow his vegan diet. Earlier in the day, police escorted Bankman-Fried's parents to his home in Albany, Bahamas, to retrieve Adderall, another medication. Bahamian prosecutors countered that granting Bankman-Fried bail would violate a treaty with the United States, which requires defendants to be held in custody pending extradition proceedings. Bankman-Fried told the judge that he would not waive his right to oppose extradition proceedings, suggesting that he may seek to remain in the Bahamas. Judge Ferguson-Pratt ultimately decided to deny Bankman-Fried's request for bail, telling the court she did not believe bail would be a sufficient deterrent for the accused not to be a flight risk.

The man who was still in his \$40 million Bahamian mansion on Monday is now in a cell at Fox Hill, a facility known for its deplorable conditions due to overcrowding and understaffing. "Inmates at the facility said they had to remove human waste with buckets and were prone to bed sores after being forced to lie on the hard floor for long periods of time," Business Insider reports, citing the U.S. State Department report. Similarly, the "cited infestations of rats, maggots and insects in individual cells. Up to six inmates at a time can share these small cells that lack mattresses and toilets." According to Bloomberg, if he were indeed to be extradited to the United States, SBF faces up to 115 years in prison. All indications are that the party at the expense of the capital stolen from the many investors is definitely over. This will not bring tears to anyone's eyes.

It was also learned earlier this month, by SBF's own admission, that FTX customers who were trading bitcoin were not actually trading the asset. In short, the exchange was not holding the bitcoins purchased by customers even though they were being credited "on paper" in their accounts. FTX only purchased real bitcoins when a withdrawal request was made. In short, the scarcity of the asset was just an illusion on the exchange, with the removal of the upward pressure on prices that this necessarily brings.

Binance last week filed a report on its proof of reserves. However, this action to

reassure investors is now having the opposite effect. John Reed Stark, a former SEC regulator, said the recent Binance report is what he defines as a "red flag". Stark alleged that the recent report "does not address the effectiveness of internal financial controls" nor "express an opinion or conclusion of assurance," adding that it does not "guarantee the numbers." According to the Wall Street Journal, the audit was conducted by Mazars, a mid-sized international accounting firm. Its comments are not exactly reassuring. Mazars stated that it performed its work using "agreed-upon procedures" requested by Binance and that "we make no representations regarding the appropriateness" of those procedures.

This was more than enough to create a full-blown wave of panic. More than \$3 billion worth of cryptocurrencies have been withdrawn from the exchange in the past 24 hours. The exchange has seen a total net outflow of over \$3.6 billion in the past week. The following chart shows the extent of the movement:



It was such a "run to the bank" that led to the FTX bankruptcy. All eyes are therefore on Binance and its ability to honor all these withdrawals. So far, however, everything is going smoothly. The company's CEO Changpeng Zhao,

for his part, says it's just business as usual.



CZ  Binance 
@cz_binance

...

We saw some withdrawals today (net \$1.14b ish). We have seen this before. Some days we have net withdrawals; some days we have net deposits. Business as usual for us.

I actually think it is a good idea to “stress test withdrawals” on each CEX on a rotating basis. 💪

He added this morning that:



CZ  Binance 
@cz_binance

...

FUD brought "stress test", which in turn helps to build the credibility for exchanges that passes the test.

If you want to hold your own coins, feel free to use [@TrustWallet](#). Please keep your private keys safe.

Otherwise, we are here [@binance](#). 🙏

This crisis has the merit of truly verifying who the reliable players are from those swimming naked. There is no doubt that if Binance is able to continue its operations as it currently does, it will have emerged with a grown reputation. Perhaps more important, however, is how investors are finally making sure they

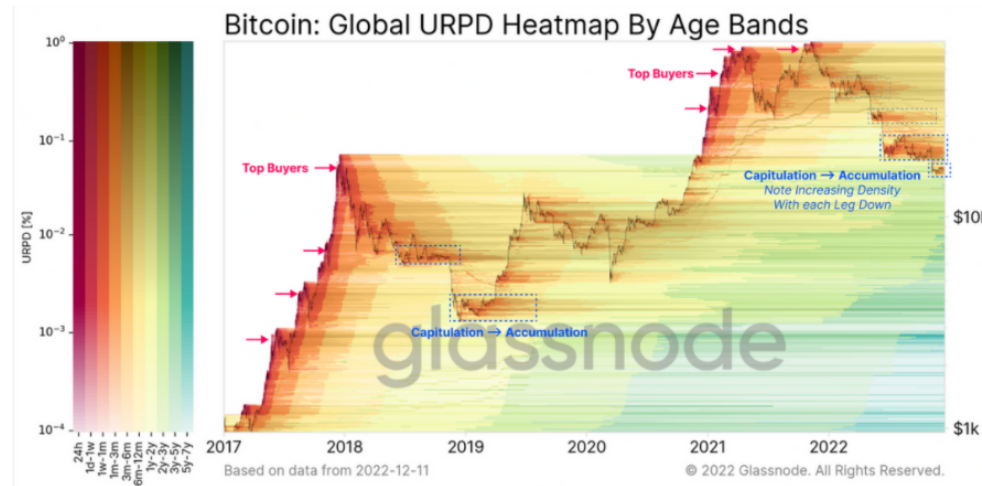
hold their own private keys. A cleanup of all the leverage built on houses of cards and all the malicious actors along the way is now undoubtedly required for a rosier, lower risk future for the industry.

Note that Crypto.com has also published a report seeking to demonstrate its proof of reserves. However, the auditor behind this report is also Mazars.

The whole saga is also having repercussions here in Canada. The Canadian Securities Administrators announced on Monday that they are strengthening their approach to overseeing crypto exchanges. They reiterated the need for platforms to register with the responsible authorities. This registration comes with conditions that "will include, among other things, requirements to hold Canadian clients' assets with an appropriate custodian and segregate these assets from the platform's proprietary business, as well as a prohibition on offering margin or leverage for any Canadian client." In short, no more leverage on cryptocurrency exchanges in Canada! [The full release](#) can be viewed here.

The rise in the price of bitcoin over the past few days has broken through significant local resistance at \$17,500, which in turn reinforces the idea that the cycle low is behind us. Closing above \$18,000, thus on the right side of the 50-day moving average, would be a new bullish indicator for the continuation of the rebound of the last few weeks.

According to the analysis firm Glassnode, the current trend has moved from capitulation to accumulation. It draws this conclusion through the UTXO Realized Price Density metric, which provides insight into seller intensity based on token age. "After each market decline in 2022, we can see that the density of coin redistribution (and thus re-accumulation) has increased," Glassnode writes in its note, noting that the drop from \$24,000 to \$18,000 saw particularly strong re-accumulation. An accompanying chart shows investors who bought the "macro top" of each BTC price rise, particularly in late 2017 and through April 2021.



This trend is all the more inviting if slowing inflation can be confirmed, gradually removing overall macro bearish pressure from the markets as a whole.

Rivemont Investments, manager of the Rivemont Crypto Fund.

The presented information is as of December 14th, 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 Investments are not responsible for any errors or omissions in the information or for any loss or damage suffered.

////////////////////////////////////
Valérie Marquis

19 rue Le Royer Ouest, suite 300
Montreal, Québec, H2Y 1W4
Tel: 819-246-8800
valerie.marquis@rivemont.ca

////////////////////////////////////
www.rivemont.ca

Martin Lalonde

160, boul. de l'Hôpital, suite 202
Gatineau, Quebec, J8T 8J1
Tel: 819-246-8800
martin.lalonde@rivemont.ca

[Aimez-nous sur Facebook / Like us on Facebook](#)

Copyright © 2022 Rivemont, all rights reserved.

Want to change how you receive these emails?
You can [update your preferences](#) or [unsubscribe from this list](#).

