

RIVEMONT

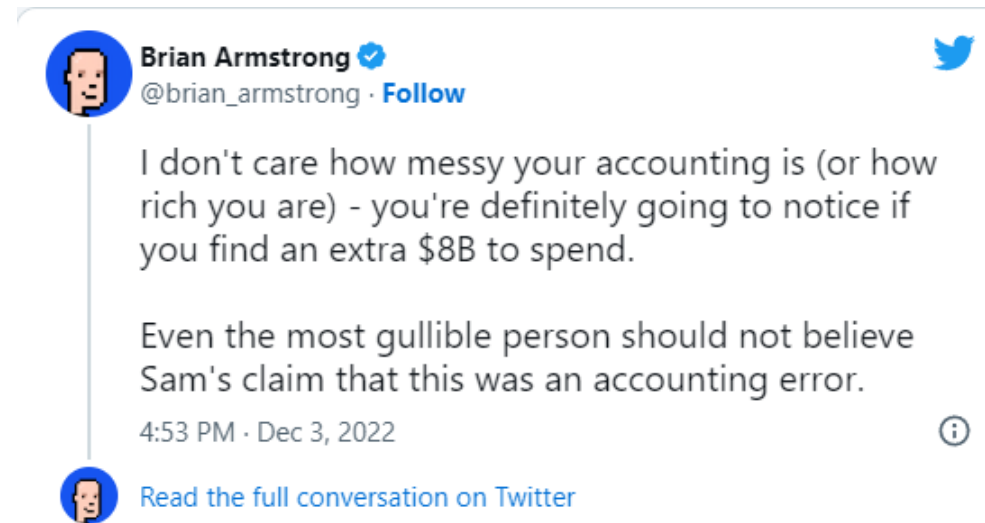
Rivemont - Weekly Update #260

December 7th, 2022

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

It's been a particularly quiet week in the cryptocurrency world, both on the news and market side. Quiet, but nevertheless strange. Indeed, after the collapse of FTX, its former CEO Sam Bankman-Fried is practically on a media tour at the moment, confusing his flattest apologies with explanations that are, to say the least, wacky about the reasons for the company's collapse. Clearly, the latter is trying to avoid any criminal involvement, when instead all indications are that FTX was a fraud from start to finish, or the product of the most incompetent management team in business history. Neither hat is particularly flattering.

Coinbase's CEO dismisses SBF's explanation of an "accounting error" by FTX out of hand and says the funds were clearly stolen. Brian Armstrong says only the "most gullible person" could believe that an \$8 billion hole was due to improper accounting.



Armstrong went on to point out how he believes the FTX balance sheet mismatch was created. "It is stolen client money used in its hedge fund, plain and simple."

The SEC and the U.S. Department of Justice are investigating Sam Bankman-Fried, who has been called to testify before the House Financial Services Committee. Many wonder how SBF can be a free man today. While investigations are mounting, it is criminal intent that will have to be proven beyond a shadow of a doubt for the CEO to actually face justice. "Firstly, the fact that SBF and FTX have Bahamian ties adds a further layer of complexity to the U.S. investigation," said Charles Slamowitz, an attorney who represents Web3 clients. "Second, prosecutors are not as adept to large-scale cryptocurrency fraud, a newer development. Gathering the right information to file charges is therefore more complex and opaque. Therefore, while SBF being charged is just a matter of time, investigations for prosecution often take time."

Related to criminal charges, the question is whether he misled FTX customers into believing their money was available and not being used as collateral for loans or other purposes, according to Renato Mariotti, a former federal prosecutor and trial attorney who has represented clients in securities derivative and class action lawsuits. "It certainly looks like there's a fraud case here," Mariotti said. "If I were representing Mr. Bankman-Fried, I would tell him that he should be very concerned about a prison sentence. That it should be a primary concern for him." The Wall Street Journal reported that both the Department of Justice and the SEC were investigating the FTX bankruptcy and were in close contact with each other. Ultimately, if the U.S. ever gets around to arresting him, that could mean several years behind bars for SBF.

Will SBF be in the U.S. on December 13, when the House of Representatives Committee on Financial Services holds a hearing on FTX's collapse? Representative Maxine Waters is counting on it. Via Twitter, she sent a strong direct message to the principal: "Based on your role as CEO and your media interviews over the past few weeks, it's clear to us that the information you have thus far is sufficient for testimony. As you know, the collapse of FTX has harmed over one million people. Your testimony would not only be meaningful to Members of Congress, but is also critical to the American people. It is imperative that you attend our hearing on the 13th, and we are willing to schedule continued hearings if there is more information to be shared later."

Negotiations on Genesis' debt restructuring continue. While nothing new has leaked on this crucial issue, the Financial Times reported over the weekend that Genesis owes digital asset platform Gemini customers some \$900 million via the EARN lending platform, though that figure seems less alarming if you set aside the roughly \$1.1 billion it is owed by its parent company, Digital Currency Group, owned by Barry Silbert. According to the newspaper, discussions are underway between Genesis and DCG on how to resolve the issue of intra-company loans. Still according to the Financial Times, DCG has total debts of \$2 billion, of which \$1.7 billion is owed to Genesis. In addition to the \$1.1 billion in debt assumed by DCG to cover Genesis' exposure to the bankrupt

hedge fund 3 Arrows Capital, DCG also borrowed \$575 million " on an arm's length" to finance, among other things, DCG's share buybacks.

The Grayscale Bitcoin Trust (GBTC) discount plunged Tuesday to a record low of more than 43% against the underlying value of bitcoin. This could prove to be an interesting gamble if Grayscale succeeds in its bet to convert its trust into a bitcoin ETF. All attempts to launch a Bitcoin ETF in the U.S. have been blocked by the SEC, which has repeatedly denied or delayed all applications received, including Grayscale's. Unimpressed with the agency's stance on the matter, Grayscale sued the SEC in June. In addition, Grayscale has hired legal counsel, including former U.S. Solicitor General Donald B. Verrilli, Jr. and the law firm Davis Polk & Wardwell, to support the company's ongoing campaign to convert its Bitcoin fund into an SEC-approved ETF.

As valuations of crypto companies are affected by the recent FTX debacle, financial services firm Goldman Sachs is looking to dive in and invest millions to buy or invest in crypto companies while prices are low. In an interview with Reuters, Mathew McDermott, an executive at Goldman Sachs, reportedly said that big banks see opportunities in the space as the FTX collapse highlighted the need for more regulation within the industry.

BTC spent the first 6 days of December floating in a narrow trading range around \$17,000. The market slowdown is reflected in greatly reduced trading volumes in the cash and derivatives markets. In short, the market is truly in "wait and see" mode right now! As a result, the fund has a very similar exposure to last week.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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