

Bitcoin: Additional Suspicious Developments

Dec. 26, 2017 8:46 AM ET78 comments

by: General Expert

Summary

- Tethers are being issued at a pace of 13 billion per year.
- No one knows where the money is, but no one seems to care.
- Bitfinex halted new accounts registrations.
- Bitfinex employee's profile suggests that he or the company is being investigated.
- Tether Limited runs the Bitfinex playbook by imposing redemption minimums, effectively freezing customer funds.
- *This idea was discussed in more depth with members of my private investing community, Core Value Portfolio.*

In my previous articles, I talked about the surprising correlation between the supply of Tether and the price of Bitcoin. I encourage you to read both of them for some background. In essence, there are good reasons to believe that Tether Limited is issuing Tethers that are not backed by USD as promised in order to purchase Bitcoin through Bitfinex. After examining the flow of Tethers, which originate from Tether Limited and are then subsequently distributed to various other exchange all through Bitfinex, I believe that Tether's correlation to Bitcoin is no simple coincidence.

It continues to baffle me why this issue is not the most talked about topic in the Bitcoin community (OTCQX:GBTC, COIN, RIOT, OTC:BITCF, OTC:BTSC, OTCQB:BTCS, OTCQB:MGTI). I can assure all stakeholders that just because you bury your head in the sand, the problem is not going to go away.

Since my last article (read [Regulators Must Investigate Bitcoin](#)), Tether Limited has minted another 350 million Tethers (that's a rate of 13 billion per year). At the time of writing, there were over 1.2 billion Tethers outstanding. Meanwhile, no one actually knows or seems to care about where Tether Limited is holding the USD funds. If market participants truly care about the integrity of the cryptocurrency, this should be the most pressing issue at hand.

A lot of things happened since my last article, and today, we'll see some new developments at Bitfinex and Tether Limited that further strengthen my belief in that Bitcoin is manipulated by the issuance of unbacked Tethers.

Bitfinex Developments

After my first article on the subject (read [Bitcoin Only Has One Way To Go](#)), Bitfinex instated a minimum withdrawal policy of \$250 or equivalent, which according to my calculations, locked up 75% of its clients. Soon after, the exchange also completely stopped new account registrations until January 15th, 2018.

Thank you for your interest in opening a Bitfinex account. However, due to extraordinary demand, new account creation has been temporarily paused.

Bitfinex focuses on serving professional traders. The reason we have decided to temporarily stop accepting new accounts is that we cannot undermine the quality of our services for our existing traders by flooding the system with new, small accounts.

Please be patient while we expand infrastructure, services, and staff to meet the exponential rise in demand for new Bitfinex accounts.

This pause for new account creation is a temporary measure. New account registration will resume by January 15th, 2018 at the latest.

Thank you for your patience and understanding,
Bitfinex Management

Source: [Bitfinex.com](#)

At first glance, halting account growth doesn't benefit Bitfinex since an exchange typically wants more users. However, the implication here is that now, members of the media who want to investigate the platform will be unable to do so (luckily for me, I had signed up last year). In addition, manipulating Bitcoin through Tether doesn't require new users in the short term. In fact, it may be *harmful* for the manipulators if we assume that new accounts would be buying Bitcoin on Bitfinex (i.e. trading *with* Bitfinex when fraudulent Tethers are used to buy Bitcoin, giving Bitfinex a higher cost basis). Certainly, over time, an influx of

additional users is required, from whom Bitfinex can then purchase Bitcoin (or other cryptocurrencies) with unbacked Tethers, but that isn't a concern in the near term since there are still many Bitcoins that are not owned by Bitfinex.

Many readers have urged me to forward my findings to relevant authorities, and it is interesting to note that a Bitfinex employee's warrant canaries have disappeared. Warrant canaries serve as a warning mechanism that indirectly indicates to the public that the related entities have not been investigated. Their disappearance implies that he or the firm are being investigated by law enforcement.



(Source)



Chris Ellis

@MrChrisEllis

Possibilitarian & micropreneur. I hope to make the world better than I found it.
Work at @Bitfinex & Founder of @ProTipHQ. Views my own.

(Source)

Tether Limited Developments

On Wednesday, Tether Limited came out with a press release that included updated policies and a few paragraphs that directly addressed "conspiracy theories." There were images of historical "audits" and the promise of another "audit." But if we peel back the wordplay, predictably nothing of substance was said, and more importantly, the company revealed some new restrictions regarding the use of Tether.

- Large customers are still able to move money into and out of Tether.
- Depending on the jurisdiction, smaller retail-type customers will continue to encounter difficulties in moving funds using traditional payment rails.
- Even as we begin to normalize traditional money transfer operations, we will likely soon enforce substantial minimums on the creation and redemption of Tethers.

Source: tether.to

Clearly, Tether Limited is following Bitfinex's playbook of freezing customer funds, which isn't surprising considering that the two companies are run by the same management.



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(Source)

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(Source)

An arbitrary redemption minimum will prevent small Tether holders from cashing out, meaning that they will be unable to redeem their tokens for USD in the event of a run on Tether. As I've mentioned in previous articles, it's unclear at what point this will occur, but rest assured that it *will* happen at some point in the future as Tethers must be converted into USD for the holder to derive any utility from the tokens (i.e. so users can actually buy goods and services in the real world). In the meantime, these new policies give the uninformed and naïve traders reasons to continue to trust the Tether system. I believe that this game of confidence will inevitably collapse, but as with anything in a market, anything can be real as long as enough people believe in it.

In the hopes of calming investors about "conspiracy theories" of insufficient USD reserves, the company also posted pictures of bank confirmations for the periods prior to them losing bank access from Wells Fargo (NYSE:WFC) as a correspondent bank in April.

December 31, 2016

January 31, 2017

February 28, 2017

March 31, 2017

Note that the above confirmations are literally just pieces of paper confirming bank balances (i.e. *not* a full audit). These pictures do not prove that the funds actually belonged to Tether Limited (e.g. could be funded by debt) nor do they show the flow of funds, which should match the Tether issuances visible on the blockchain. Furthermore, these confirmations were completed when there were merely 45 million Tethers outstanding at most; that number has now ballooned to *over 1.2 billion*. Most importantly, bank confirmation is pretty much useless in China (where the bank was located) because this flimsy piece of paper cannot only be easily doctored, the bank rep responsible for the confirmation can be easily bribed as well.

In addition to the bank confirmations, the company also stated that Friedman LLP is working hard on completing a full "balance sheet audit" for the periods going back to December 31st, 2016. Presumably, a balance sheet audit does not entail a full audit, which would verify the flow of funds, the key to identify (or deny) potential fraud. If the

company produces an "audit" similar to the report produced earlier (i.e. *not* an audit as specifically stated by Friedman in the numerous disclosures as discussed in my previous article), then all of the efforts to come clean will be moot. In addition, due to the intertwined relationship between Tether Limited and Bitfinex, only a simultaneous audit of both companies over time can rid me of my doubts. This is important because Bitfinex could be supporting Tether's balance sheet in the event of fraud, and vice versa. For example, even if Tethers are not fully reserved by USD, Bitfinex can easily move some of its funds into Tether Limited's bank account to temporarily make up for any shortfalls.

Conclusion

It is astounding that mainstream Bitcoin media aren't treating Tethers more seriously. Even exchanges (Chicago Board Options Exchange (CBOE), CME (CME)) are marching ahead with plans to introduce ETFs based on Bitcoin futures. Packaging a complex asset into futures then ETFs to create artificial liquidity, I wonder what could go wrong? Perhaps everyone is too busy counting their paper gains, but I must warn market participants that if my suspicions prove to be accurate, the wealth that is being created is just an illusion. It is in the interest of all stakeholders to ensure that manipulation does not stifle blockchain innovation, or worse, cause the next financial crisis should this be allowed to perpetuate.

Click the "Follow" button beside my name on the top of the page to be updated with my latest insights on important topics. If you are a long-term investor, check out the Core Value Portfolio (now available at an all-time low price to make it affordable to everyone), whose goal is to compound capital at 20% over the long term. If you need convincing, see for yourself if you are the right fit to achieve 20% annual returns and if you agree with the investment philosophy. Premium subscribers get full access to the Core Value Portfolio.

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

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