

Title: PSA: Stuart Hoagner (Tether's lawyer) just basically confirmed that Tether is in fact holding Chinese Commercial Paper. Though denying it's Evergrande debt, with default looming and its systemic effects on the China money market, this this is a Lehman Brother's-level "Gray Rhino" event in crypto

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In the last 24 hours, \$56 Billion in USDT volume was traded. That is more than Bitcoin, ETH, and the next 3 largest coins combined. It is the glue holding the world of crypto exchanges together.

I'm sure most of you have seen the movie "The Big Short". For the simplified cliff notes refresher - Leading up to the 2008 financial crisis, huge batches of dog-shit mortgages at high risk of default were being bundled up into various securities and bonds, which were then bought and sold by financial institutions around the world. When the defaults started rolling in....bla bla bla....global financial system collapses. Any financial institution holding the dog shit went down (either ending in bankruptcy or government bailout). Cool, remember that.

So Tether FUD has been a meme since Tether was a thing...for good reason too. Since inception, the stablecoin has been caught up in a seemingly endless stream of shadiness and legal issues. A bunch of the OG Tether execs/funders charged with bank fraud, ties to other fraudulent crypto criminal activities, shady ties to Bitfinex, The NYAG suing Tether/Bitfinex and holding them liable for lying about reserves and hiding, the current DOJ investigation...etc etc

Around 2019, Tether low key changed the claim on its website from "We are backed 1-to-1 with cash", to "we are backed by cash and cash equivalents". Of course this was swept under the table quickly in wild wild west cryptoverse.

Since January 2020, Tether's market cap (and distributions) has exploded from just \$4+ Billion to now over \$62+ Billion. Supposedly all safely backed by some form of financial reserve.

After the NYAG situation, earlier this year Tether was forced to finally publicly disclose their reserve composition. Although they didn't reveal much, the Microsoft Word-quality pie chart they posted did confirm that in fact just a fraction of their holdings is actual cash...the vast majority being held in "Commercial Paper."

What's commercial paper? It's short-term (unsecured) debt issued by companies. They're typically used to raise money for short term funding needs like buying inventory, payroll, or pre-paying construction vendors....kind of like an "IOU" of the corporate world. It usually gets a rating, and is usually pretty safe...so long as the companies issuing it remain solvent.

As of the latest Attestation by their sketch accountant shows Tether holds just \$6.2 Billion in cash, \$30.8 Billion in commercial paper, the rest T-Bills and RRP's. [https://tether.to/wp-content/uploads/2021/08/tether_assuranceconsolidated_reserves_report_2021-06-30.pdf](https://tether.to/wp-content/uploads/2021/08/tether_assuranceconsolidated_reserves_report_2021-06-30.pdf)

With it now in the open that these coins are actually operating more like unregulated money market funds, over the last several months alone the SEC, CFTC, DOJ, congressional financial committees, and the US Treasury department all set their sights on cracking down on stablecoins.

Furthermore, since Commercial Paper is traded at a discount to Face Value, Tether can buy up dog shit junk bonds for pennys on the dollar, but report it as the full maturity amounts on their balance sheet. Great for their balance sheet...horrible if there's a run on Tether redemptions.

A lot of moonbois and Crypto maxis tried to shrug all of this off, saying "STFU FUDbois, who cares? They have a fractional reserve, regular banks do the same shit."

This is true, except traditional banks are not gambling most of it in dog shit debt (at least hopefully not to the degree they pre-2008). Money market funds are pretty transparent with what they're invested in. And overall like them or not traditional banks are FDIC insured, meaning your funds are actually "safu" in the event of a run.

Problem with Tether is that to this day, they still refuse to disclose the makeup of their commercial paper. Furthermore, at Tether's size they would be one of the biggest investors in the entire commercial paper market. However major players in the US investment markets claim they've never even heard of them. <https://www.ft.com/content/342966af-98dc-4b48-b997-38c00804270a>

So this has all lead to speculation that maybe their paper is in fact Chinese paper. Why does this matter?

Over the last 2 years, Chinese property developers have been issuing debt like crazy. So much so that the Chinese government has recently begun to significantly crack down on it, fearing a threat to their entire financial system. The biggest culprit is a company called Evergrande, who has run up a tab of over \$300 Billion in debt, and is at risk of default any day. Trading of their bonds were halted last week. <https://gulfnews.com/business/property/chinas-evergrandes-moment-of-truth-arrives-as-bond-payment-deadlines-loom-1.82361403>

As Tether's huge influx of insurances coincided with the Chinese property development debt surge, many began to speculate that Tether's holdings could in fact be Evergrande debt.

Pressure on Tether regarding their reserves continued to mount until finally several weeks ago they released an attestation containing the supposed ratings of their paper holdings. They basically said "Don't worry, all of our paper is rated A2 and above."

Exoneration? Not really. Remember that scene in the Big Short when Steve Carell's character was going to the bond rating agencies only to find out that it was all a big pay-to-play scheme. The agencies gave pretty much everybody a high rating regardless of actual risk. Well...its the same thing in China. <https://thediplomat.com/2019/06/understanding-chinas-bond-ratings/> It's all pay to play, everyone is given a high ratings, and the ratings don't really mean shit.

Case in point, Evergrande's rating was AA up until just a few days ago. <https://www.barrons.com/articles/evergrande-suspends-trading-of-onshore-corporate-bonds-after-downgrade-51631786843>

Basically, Chinese commercial paper is the equivalent of mortgage backed securities circa 2007.

As pressure continued to build, and with regulators circling them like hawks, last week Tether finally made a public statement claiming they do not hold any Evergrande debt. They said "Tether does not hold any commercial paper or other debt or securities issued by Evergrande and has never done so," But, they never said it wasn't Chinese paper at all.

Then just yesterday, Stuart Hoagner, Tether's lawyer put out a tweet saying. " If the concern is Evergrande, see our earlier statement. If the concern is Chinese CP, as such, we have published the ratings on our portfolio..."

This is essentially lawyer speak for "We do hold Chinese paper, but don't worry because it has super good ratings".

So Tether is pretty much confirmed at least some or all of its paper reserves is Chinese. And if that's true, a good portion of it is probably dog shit debt right now. It does not matter if the debt is Evergrande, if the worst case scenario happens, and Evergrande defaults, the effects will be systemic throughout Chinese capital markets. The entire Chinese market will seize up.

This event would cause the value of Tether's reserve holdings to plummet with it. If that happens, either the coin becomes unbacked, or they're forced to suck liquidity out of the market (burning coins). This is catastrophic for USDT and for crypto in general.

If Tether goes down, USDC or any other stablecoin will not have nearly enough liquidity to bail it out. This is the Lehman-brothers gray rhino event of the crypto world.

This is not FUD, this is a real situation you should pay attention to.

****TL;DR**** Tether's lawyer basically confirmed they're holding a Chinese commercial paper time bomb. If Evergrande goes down, so will Tether's holdings.