THE GRANT WILLIAMS PODCAST

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Episode 13

The Tether Discussion featuring Bennett Tomlin & George Noble

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The Grant Williams Podcast, including The End Game, *The Super Terrific Happy Hour* and *The Narrative Game* represents the Copper Tier of grant-williams.com and serves as a prelude to *Things That Make You Go Hmmm...*, Grant's monthly newsletter which, over the past decade has become one of the most widely-read financial publications in the world.

Blending history, humour and keen financial insight, Grant dissects the financial landscape with thought-provoking commentary—taking readers in unexpected directions and opening up investment avenues away from the beaten path which stimulate the kind of original thinking so lacking in today's financial media.

Drawing on Grant's extraordinary network of experts around the world, *Things That Make You Go Hmmm...* weaves together a tapestry of insight and information, folding in a series of under-the-radar stories and perspectives, to give subscribers an important edge in a fast-changing world.

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My recent foray into the world of the stablecoin tether and the companies and personalities surrounding it has been utterly fascinating.

I've seen many curious things during my career but the seemingly blatant nature of what certainly seems, at face value, like a gigantic fraud, has astonished me.

In the recent June edition of Things That Make You Go Hmmm..., I dove into Tether (the company), Bitfinex and tether (the coin) and what I found blew my mind.

Much of my research was built upon the work of a group of tether skeptics, one of whom, Bennett Tomlin, agreed to join me for this discussion to hopefully bring the story to wider attention.

It's worth pointing out that Bennett is <u>not</u> a crypto-skeptic, but what he's uncovered is a complex web of deceit and obfuscation that will, I suspect, take your breath away like it did mine.

Joining Bennett and myself is George Noble, a hugely experienced hedge fund manager with an extraordinary track record. Like Bennett, George is not anti-crypto, but his own work on Tether has led him to similar conclusions.

Hopefully, this discussion between a stalwart of the financial industry and a man who has immersed himself deep in the crypto world can help both sides understand each other better and you to gain a perspective on what could well become the biggest story in crypto in the coming weeks and months...

Grant Williams:
Before we get going, here is the bit where I remind you that nothing we discuss should be considered as investment advice. This conversation is for informational and hopefully entertainment purposes only. So while we hope you find it both informative and entertaining, please do your own research or speak to a financial advisor before putting a dime of your money into these crazy markets. And now, on with the show.

Grant Williams:
Regular listeners to this podcast will be somewhat familiar with my take on cryptocurrencies in general and Bitcoin in particular. Generally speaking, I try and stay clear of the crypto space because though it interests me greatly. I fully understand that those who spend their lives completely immersed in this technology and the narrative surrounding it are at a significant advantage to me. Well, to be honest, the toxicity of the environment is something which I find unnecessary and something of an impediment around both learning and questioning both the technology itself and that narrative that surrounds it. Because of that, I tend to confine my conversations about Bitcoin and crypto to my life away from the microphone, with the notable exception of what was a hugely enjoyable debate I hosted between Mike Green and Nick Carter a few months ago on this very podcast.

Grant Williams:
However, recently my attention has been drawn to a remarkable story that sits square in the middle of the crypto world, and which has drawn an inordinate amount of attention from those skeptical about both the people responsible for its existence and the integrity of its place in the fast-growing world of cryptocurrencies. I'm talking about Tether, the largest, so-called, stablecoin, and an instrument which underpins much of the crypto market now, allowing access to cryptocurrencies for those in jurisdictions where either regulators or banks, or both have placed impediments, and which provides much of the lubrication required by the gears of the crypto world.

Grant Williams:
For me, there was just so much smoke surrounding this particular instrument, and those people in companies responsible for it that I just found it hard to believe there couldn't be a fire somewhere. So I decided to dig into it in the pages of Things That Make You Go Hmmm... In June. What I found astonished me. It's a remarkable story filled with extremely colorful characters with, let's call them, interesting backstories. There are lawsuits, judgements and a raft of unanswered accusations, which are going to say create significant doubt around the credibility of this hugely important cog in the crypto gears. The response to that addition of Things That Make You Go Hmmm... was extraordinary. And it's prompted the conversation you're about to hear. My guest in the special edition of The Grant Williams Podcast are Bennett Tomlin, one of the people upon whose outstanding work, I've built my own piece, and George Noble, a Tether critic and longstanding pillar of the finance community. George was a former star fund manager of Fidelity and is currently the chief investment officer of Noble Capital Advisors, the eponymous hedge fund firm he founded about 30 odd years ago.

Grant Williams:
But the aim of this conversation is to try and bridge the gap between the finance community and the crypto community. To help one understand the other's concerns and hopefully highlight the potential threat posed by Tether to the crypto ecosystem. I'm sure it will generate as many questions as it does answers, which is another point of these types of discussions. Now, if you're not already subscribed to things that make you go hmm, but you'd like to read my report, Schrodinger's Coin, you can download a free copy of it at www.grant-williams.com/download. So with that being said, here's my conversation with Bennet Tomlin and George Noble.

Grant Williams:
Well, George, Bennett, thank you so much both of you for doing this. This is such a fascinating story for me. And I wrote this piece about Tether, the feedback has been remarkable, but the vast majority of that piece was built upon the foundations that Bennett and his friend and co-host Cas Piancey and Amy Castor and Bitfinex'ed on Twitter laid for me. So I was able to follow those tracks and try to unpack the story, but there's so much more to it. And so, what I'd love to do, George, I'm going to come to you in a minute, but Bennet, if I can, first of all, publicly to thank you for the incredible amount of work you've done in chronicling this story. But perhaps if we can get into this, because there will be a lot of people here that don't know the story as I didn't until my introduction to it was that Doomsday Machine article back in, I guess, January, that first brought it to my attention.

Grant Williams:
So perhaps you could just explain how this story came to your attention and the kind of broad strokes of

the trail of breadcrumbs that it took you down.

Bennett Tomlin:
Yeah. So I first discovered Bitfinex and Tether in 2017. I was in my senior year of college and was starting to try to figure out what I wanted to do after I graduated. And I ended up getting interested in crypto, started trying to research a whole bunch of the stuff, and I kept bumping up against Tether and Bitfinex, and then discovered Bitfinex'ed, who was not the first, but one of the first really prominent people to push the Bitfinex and Tether information to the forefront. And so, I started reading the work he'd done already, listen to the audio recordings he had of the executives. And then, I just kept researching for the next three and a half years reading more about the executives, trying to track what these businesses did over their periods, discovering the strangeness that was Crypto Capital Corp, who was the money laundering payment processor for both of these companies, and trying to dig into that web. And just continually over the years, trying to get a better, more cohesive picture of what these two companies were and what their role was.

Grant Williams:
So you mentioned some of the executives there, so let's start by painting pictures of the people involved in these things. Because oftentimes, when you see companies that have a degree of smoke surrounding them, it normally goes back to the people. And good friends of mine who are serial short sellers and very successful ones say that, that's the first thing they look for. They look for people who've previously been involved in companies that had either a shady outcome or shade around them. That's the first big check on the list for them. So talk a little bit about the people involved in this.

Bennett Tomlin:
Sure. So Bitfinex itself was founded by a helpdesk technician named Raphael Nicolle. In his free time, Rafi liked to look for Ponzi schemes on Bitcoin talk and places like that, that he could participate in. Famously, he defended the Trendon Shavers Ponzi scheme very strongly. And that was obviously a Ponzi scheme that got busted by the Department of Justice and in which he lost a whole bunch of his Bitcoins. Right after he lost a bunch of his Bitcoins in that Ponzi scheme, he decided to start his own high yield lending program where people would lend him their Bitcoin, he would guarantee them a return. Some people on the forum asked him why they should trust the person who had just gone to bat for this Ponzi schemer and had been such an avid participant in these Ponzis, and his response was basically, "Don't worry. I make the money through arbitrage."

Bennett Tomlin:
And when he was asked how he was doing his arbitrage, his answer was he would buy it low and sell it high, which is not generally what most people would consider arbitrage. But nonetheless, that's what he claimed. And after meeting some of this resistance on the forum, he decided he would shut down his high yield lending program and instead use a bunch of stolen code written by a teenager with known security flaws to start his own Bitcoin exchange, and that is where Bitfinex came from. He was eventually joined by Giancarlo Devasini, who is now the chief financial officer of both Bitfinex and Tether. He was educated as a doctor, but I do not believe he ever actually practiced medicine, and had previously had some issues when he had to pay restitutions to Microsoft for selling pirated software.

Bennett Tomlin:
Phil Potter joined a little bit after that. He was a former New York financial guy who had a New York Times

profile written about him that caused a little bit of controversy because he was bragging about how much money he was making and things like that. And then some of the other characters get really weird. So Stuart Hoegner is the general counsel for both Bitfinex and Tether. Before that, he was the Deputy General Counsel and the Director of Compliance for a poker company called ExCapsa. This company owned Ultimate Bet and a couple of other sites that had a God Mode. So some of the players on these sites were able to access this God Mode and see what cards the other players were holding, which was clearly an advantage to them when they were playing poker. And then you also have Tether was founded by Brock Pierce, a former child actor who moved to Spain with indicted child sexual predator, Marc Collins-Rector, and then they both ended up getting arrested over there in a house that had a whole bunch of child pornography in it.

Bennett Tomlin:
He was joined by a bunch of his old friends from IGE, which was a company that sold farmed MMO items and stuff like that. So Jonathan Yantis came over from there, as did William Quigley, who was another one of the co-founders of Tether also was with him over at IGE. They were joined by a couple of other people from the Mastercoin Foundation and stuff like that. And then, the Current Spokesperson/Chief Technical Officer for Bitfinex and Tether is Paulo Ardoino. He, before Bitfinex and Tether seems to have largely just been a FinTech developer for a couple of European FinTech companies.

Bennett Tomlin:
The most interesting thing about him is that he is now a director for which is part of Deltec International Group, which is obviously where they bank. So just one of those interesting little things. So the CEO, JLVDV, van der Velde, he is fascinating because he doesn't make public statements and hasn't really made any in his entire time as CEO of both of these multi-billion dollar companies. And besides being the CEO of both of these multi-billion dollar companies, he's also the Executive Director for another VC Fund and an Executive Director for a Chinese automotive company. So he's a very busy person who almost never says anything.

Grant Williams:
So there's a couple of things I want to go back to there. A couple of times you mentioned that one or other of those people you just talked about were executives at both companies. Now, both companies originally were distinct from each other and there was no suggestion initially that they came from the same lineage as it were, but that was proven again, despite denials, I believe, to be completely fake, is that right?

Bennett Tomlin:
Yeah. And this is kind of a complicated story because they, at different times, both acknowledged and denied that Bitfinex and Tether were effectively run by the same group of people. And they would keep going back and forth between confirming and denying this fact. So in the very beginning, late 2014, if you go on the Wayback Machine and look at Tether's website, you can see them advertising that their team of executives is the same team of executives as Bitfinex, but then they end up taking some of that down and on Bitcointalk, you have like Giancarlo Devasini, the CFO of both companies being like, "Waiting for my invite for Tether and the Bitcointalk forums," as if he's not the Chief Financial Officer for this company. Then there's another point before March of 2017 in a WhalePool teamspeak where Phil Potter admits that they have basically the same set of shareholders.

Bennett Tomlin:
However, then comes March of 2017 when they get cut off by Wells Fargo and no longer have correspondent banking in the US, and they decide to file a frivolous lawsuit against Wells Fargo. When asked about this lawsuit, Phil Potter, again in a WhalePool teamspeak, because that's where you do corporate announcements and stuff says that, "No, we're not the same. We just happened to bank at the same place and had the same problem." Finally, we got the Paradise Papers which came out, which showed that they'd both used Appleby in the British Virgin Islands to incorporate these entities with the same set of executives, both of the entities. And we now know, thanks to some of the other information that's come out that they've always been these deeply connected entities under the same parent company starting in, I want to say, like 2015.

Grant Williams:
And the other thing that I think is important to clarify here is because when this whole thing started, it was difficult for crypto exchanges to get banking. There was a big stigma attached to it. So a lot of people that started out had to try and find creative ways to take payments, right?

Bennett Tomlin:
Yeah. And there's still a bit of difficulty for cryptocurrency exchanges to find banking.

Grant Williams:
So that brought around that Wells Fargo thing you talked about. That brought into play a company called Crypto Capital Corp, which was a shadow bank in Panama. Is it Panama? Yeah, Panama. I think I'm right. So let's just unpack that little episode, and then I'm going to come to George because I think he's going to be chomping at the bit to get involved.

Bennett Tomlin:
Yeah. So in 2013, Crypto Capital Corp was founded by Panamanian Canadian, Ivan Manuel Molina Lee, and Israeli citizen, Oz Yosef. They partnered with Bitfinex starting in 2014, but it was when they lost banking with Wells Fargo in 2017 that Bitfinex and Tether really needed to start relying on Crypto Capital Corp more heavily because they had lost all other correspondent bankings. And the interesting thing about Crypto Capital Corp is that despite all of these individual cryptocurrency exchanges, not being able to get banking, this Panamanian Colombian payment processor always seemed to be able to have bank accounts to service these same cryptocurrency exchanges. And what we eventually learned is the reason for that is because Crypto Capital Corp was just blatantly committing bank fraud. They were presenting fake bond certificates claiming to have more in assets than they actually did. They were telling the banks that these were real estate companies that needed to get these accounts set up, not payments processors for Backpage and cryptocurrency exchanges.

Bennett Tomlin:
And so the reason Crypto Capital Corp was able to still maintain this banking for these groups was because they were actively committing bank fraud. Now, besides actively committing bank fraud, Crypto Capital Corp was involved in some other criminal things. Ivan Manuel Molina Lee, one of the two principals who I mentioned for Crypto Capital Corp was arrested in Greece and extradited to Poland on suspicion of money laundering for the Colombian cartels. Important to that, the Panamanian based Crypto Capital Corp did have a Columbia based branch that they ended up closing up right around the time Ivan got arrested. They

were also embezzling from their client funds. So they ran two sets of books and Reggie Fowler, one of the other principles for it, had his 10% fund in his Master US Workbook, both of which documented exactly what he was doing. Reggie Fowler, when he was picked up by the Feds, had thousands of dollars in counterfeit bills on him and the equipment to make more. They've also been indicted on wire fraud and... Oh, I think that's most of the things we've learned so far.

Grant Williams:
I think that's enough even if you've missed a couple things. But this is the interesting part to me, because when you hear these stories and you hear about the people involved, it's very difficult to come up with a set of parameters under which anybody would be doing business with these people who was legitimate, was worried about their own image, or frankly, had any other alternatives.

Bennett Tomlin:
Yeah. I think what's particularly striking to me in this story is Bitfinex and Tether ended up giving over $1 billion of co-mingled client and corporate funds. So each Bitfinex and Tether each co-mingled their clients and corporate funds, then Tether and Bitfinex co-mingled their separate co-mingled funds together and gave over a billion dollars of those to Crypto Capital Corp without signing a contract or agreement of any kind, which sounds absurd to me.

Grant Williams:
It does. I'm smiling as you say that, because it just, frankly, beggars belief that this could happen. Okay. So I'm going to park that there, and I want to bring George in because, George, Bennett does this and investigates this stuff full time. You and I are financial market dinosaurs. But still, we've reached a point here where the crypto world is more and more being sucked into the financial world. And we're at this place now in the rapids where the cross-currents are crazy, and it seems to me like the crypto community doesn't necessarily understand the financial community and how it works. And the vast majority of the financial community doesn't necessarily understand the crypto community and how that works. So what was your introduction to Tether? How did you come across this story?

George Noble:
So I first was attracted to the Tether story a few months ago when the price of Bitcoin went completely parabolic, and those sorts of market patterns have a way of attracting my attention, they speak to me. Many booms and busts throughout my career, Grant, you and I have known each other for, oh, my God, going on 30 years. So when you are talking about the Japanese stock market, boom bust or the NASDAQ crash in 2000, or the credit mania in 2008, facts and circumstances change, but human nature doesn't. And I think you and I Grant have spoken about some wonderful books, Extraordinary Delusions and the Madness of Crowds by Charles Mackay, also a Kindleberger book I recommend strongly Manias and Panics. And so they always follow the same script because it's [inaudible 00:18:28].

George Noble:
So my attention was drawn to this all and I started to dig in, and like you, I'm very curious, and I came across... Bennett, I have to commend you, sir. The work you've done is exhaustive. And I was chuckling listened to you speak, it's the old line of you can't make this stuff up. It truly is. I don't think the most fertile Hollywood script writer would have such a fertile imagination. So I started to look at it and what's this Tether .thing? And when I started to look into it, I'm like, "Hmm, this is a bit strange." So a few things

caught my eye and I'm starting to... For instance, I start to read about this Tether and the meteoric increase the market capitalization. It went from two or three billion last fall to, it's about 64 billion today. And by the way, that run happens to coincide with this most recent bull market in Bitcoin, which I did from October of last year, correlation doesn't mean causality, but I started to look into it.

George Noble:
And when you look, the closer you get, peel back the layers of the onion, the smellier it became. And so I realized, "Ah, they're printing all these stablecoins, which as I came to understand that basically the digital equivalent or cyber equivalent of a money market fund, and I'm like, "Wait a second, what's the backing?" And then I'm reading about attestations and Grant, have you ever seen any industry where attestations are routinely accepted in lieu of audited financial statements? And a friend of mine who's an economic historian explained to me, I think back at the beginning of the 20th century attestation were used among gentlemen or something like that, but this is just insane. So I started looking, it looks to me like there is no backing. I started to read up from a lot of the writings of Bennett and others and yourself.

George Noble:
And the more I looked, the more that my hair started to catch on fire, and I've been at this game for over 40 years. I like to joke that I've had a career of listening to people lying to me. It's been an exaggeration, but you know Grant, in finance, how should we say, company management don't always offer the bear case scenario always give me the bare case scenario. And so my bullshit detector was at a 10 and I'm also reminded of the notion that when things aren't obvious, they're not obvious for a reason, there's a reason they keep it that way.

Grant Williams:
Right.

George Noble:
And so many steps along the way, and we didn't talk much yet about the New York AG settlement, but there's so many ways that Tether at any time could have put to rest any of these suggestions, but they chose not to, for whatever reason. Imagine Grant, if you were accused of the most horrible things that you were embezzling money from your business partners, having an affair with your secretary, were into drugs all sorts of heinous acts. Well, the easiest way to spell all that is to just say, "Well here, I'm going to open my books, you can look at all my financial statements. You can interview anyone that I work with. I'll take a lie detector test. Have at it." But curiously, Tether, Bitfinex, this whole crew has chosen not to go that route. And so people say, "Well, can you prove Tether is a fraud?" No, but hang on until Bernie Madoff actually went down, could you prove that Madoff was a fraud? Could you have proved that Enron was a fraud? So the more I looked, the worse it is.

Grant Williams:
Well, look, there's a couple of things there, and Bennet, I'm going to come back to you because you mentioned, George, the NYAG case, and this was a big deal, although it's been played down by a lot of people. And I think there are some very obvious reasons why, but we'll come onto those shortly, but Bennett, just to come back to you, if you can lay out the NYAG case, the story and the settlement that would, I think, also be highly helpful for people listening that aren't familiar with this.

Bennett Tomlin:
Sure. As we previously mentioned, Bitfinex and Tether had given over one billion of their dollars to Crypto Capital Corp. In 2018, Crypto Capital Corp bank accounts started getting seized around the world as part of a coordinated effort to take down this international money laundering ring. As part of that effort, Crypto Capital Corp lost access to their bank accounts and were no longer able to serve as withdrawals for Bitfinex and Bitfinex lost access to about $850 million with the funds that were stored over at Crypto Capital Corp. Because of this starting in the summer of 2018, Bitfinex started taking money out of Tether's account and making a ledger notation basically that now Tether was owed that corresponding amount from the inaccessible funds at Crypto Capital Corp. They did this throughout the summer of 2018. And because people were having issues withdrawing from Bitfinex and stuff like that, there was increasing criticism of them online. Eventually in October of 2018, Bitfinex posted a message saying, lying and saying, "Withdrawals are working fine. There's nothing to worry about. We're totally solvent. And you can tell because our Bitcoin wallet is really big."

Bennett Tomlin:
That's actually what they claimed in the post. And meanwhile, they were still obviously taking these funds from Tether and Bitfinex's account. Then November 1st, 2018, Tether announces that they are banking with Deltec Bank. And to help diffuse some of the criticism that's been directed their way by people like Bitfinex'ed and myself, they post this letter from Deltec saying the portfolio cash value at Deltec is more than the number of Tethers in circulation. Good news, all the Tethers are backed. The very next day, Bitfinex next took several hundred million dollars from that account. So November 1st, they released the letter saying, "Look, we're fully backed." November 2nd, they take $625 million from the account. And again, make a book notation basically saying that Tether's owed the funds from Crypto Capital Corp, where it's now been months since they've been able to get any amount out of Crypto Capital Corp.

Bennett Tomlin:
They do that and that covers them for the next several months. At some point during this, they get subpoenaed by the New York attorney general, and they start interacting with the New York attorney general's office. In February of 2019, they finally update their website and their terms of service to make clear that Tether is not backed by traditional currency, which hadn't been true since March of 2017. But they finally admitted it. So February of 2019, about two years later, they changed their website, changed their terms of service and said Tether will be backed by cash, cash equivalents, loans, receivables, and other assets or something like that. Then in March of 2019, Bitfinex and Tether enter into what they described as an arms length agreement to enter into a revolving credit facility where Tether would extend up to $900 million to Bitfinex at a rate of like 6%, I want to say, and Bitfinex would be able to access that at any time. And this loan would now be a critical part of the backing of Tether.

Bennett Tomlin:
They described it as arms length, and I said it the way I did, because the same executives signed the documents for both companies, obviously. And the loan was collateralized with shares of iFinex, which is one of the companies that operates the Bitfinex platform. So if Bitfinex was unable to pay back the loan, those shares would be effectively worthless. And so it was collateralized by nothing really. And they entered into that loan agreement, and when the New York attorney general finally finds out about this loan agreement, that they had rolled the previous transaction into, Letitia James files for the ex parte order to stop them from doing this kind of transaction anymore.

Bennett Tomlin:
And finally, this is when the public learns about that whole series of transactions, because previously that we had no idea that was Bitfinex and Tether self-dealing with no disclosure. The New York attorney general case then goes on for the next 20 months or whatever.

Grant Williams:
Yeah, two years altogether.

Bennett Tomlin:
And then they end up finally coming to a settlement. Bitfinex and Tether agreed to pay $18.5 million to the New York attorney general and to cease doing any and all business in New York state. They also have to submit on a quarterly basis for two years, the list of all payment processors they're using, the assets backing Tether, and they need to do public attestations of that every quarter for two years. And the cryptocurrency world reads that settlement document where there are two very distinct reactions to it.

Grant Williams:
Right. I read that and it's not often you see the New York attorney general in her own name, not even in the name of the office, say that what Tether represented at their website was a lie, those exact words. That's pretty, pretty strong. Obviously, the crypto community said, "Well, look, 18 and a half million dollars is peanuts." As is usual in these cases, they didn't have to admit to doing anything wrong. And then Tether's announcement after the settlement, I think they said twice in the space of a single tweet that we admitted no wrong, and what's more, we didn't admit we didn't do anything wrong. It was an extraordinary thing to read. But George, just to help people understand, this idea of backing, this idea of Tether being backed one for one by dollars. Stuart Hoegner, at the general counsel admitted in an affidavit that they were only 74% backed. This was back during the NYAG case, I seem to recall. But just explain why that is a problem, because maybe it isn't.

George Noble:
So Bennett, again, masterful the way you laid it all out. Imagine we go to a casino, we go to Grant Williams' casino and we want to play the game. So Bennet and I go to the Grant Williams casino and we go and buy a thousand dollars worth of chips.

Grant Williams:
That would make you a high roller in my casino.

George Noble:
Exactly. And then, we'd go play the games. We go play Bitcoin and Dogecoin and whatever coin. And at the end of the night, we have whatever we have. Let's say we broke even. We have $1,000 worth of chips. And we go back to the window, and Mr. Williams is behind the window, and we say, "Can we please have our fiat back. Can we have our dollars back." And they're like, "Hmm, slight problem." "What do you mean?" "Well, we don't have the dollars." And so then everyone on the casino floor realizes that they think they've got whatever, how many chips they have in their pockets, they think that's real money. Well, turns out it's not good for anything. So that's really the simplest analogy I can give.

George Noble:
Now, the Tether, I don't think we need to go into the excruciating details of the breakdown, but suffice to say, and Bennett or Grant you'll correct me, but from memory, I think they only had slightly over a billion dollars, a billion, or two or something like that. And they were 41 billion Tether at the time or something like that. It was only like three or 4% back. Nowadays, by the way, just for those keeping score at home, it's 64 billion. And so the question is when we went from a few billion last fall to 64 billion today, how did that happen? Were they just literally making the Tether up out of thin air? Or did they actually get some inflows?

George Noble:
Some people suggest that some of the dirty money out there, the arms dealers and money launderers and drug dealers of the world may have decided to go through the Tether. It's a way of escaping the authorities. But at any rate, I think a very large portion of the... So a very large portion of tether is not backed. The biggest part of the backing is this so-called commercial paper, and I forget the language around them, but it can cover a multitude of sins. Curiously, no major broker dealer in the United States has ever seen these characters. The amount of commercial paper that Tether owns would place my belief number seven in the country. So it's really very odd, kind of in the same way when Jeffrey Epstein emerged from the shadows, and he was allegedly had billions of dollars. Where did that come from? No major broken investment bank had ever heard of this character.

George Noble:
So it's all very strange. So if it's not backed, it's all made up. The question then becomes, well, so what? Because many in the Bitcoin community or in the crypto community will say, "Well, we know that," or, "Yeah, but, okay. So it'll disappear and who cares? It's not relevant to Bitcoin. We care about Bitcoin, whatever." Well, here's the relevance of it, and this speaks to market structure, which is the top area I'd like to address if it's okay, Grant. So if the amount of Tether outstanding went from a few billion up to 64 billion in the last nine months, let's call it 60 billion increase in Tether. And I believe the bulk of that is not backed. But here's the point. Today, the market cap of Bitcoin is roughly, I think, 18 and a half million coins outstanding at a price of 35,000.

George Noble:
You're talking upwards of 650 billion. That's with a Bitcoin price of 34,000. If we go back to last fall, when Bitcoin was 11,000, the market capital had been just a little over 200 billion. And this is what I think is really missing in the whole discussion about Bitcoin. It's market structure. And Grant, it goes back to the point you were making about how there's a bridge here, many of the traditional finance types like you and I really don't understand crypto or have a big attention to crypto, because quite honestly up until a year ago, it was barely a small cap thing. Nobody really cared, but recently what we've seen is, I think the amount of all crypto outstanding was worth upwards of two and a half trillion dollars. And so you take that along with the fact that I think there are eight, maybe now nine applications under the SEC to come up with Bitcoin ETFs, where many of the mainstream financial institutions, the Fidelities and J.P Morgan's of the world are now looking for guidance on how to deal with this because they have to deal with KYC and AML restrictions.

George Noble:
Now people in the Fiat world, so to speak, are opening their eyes. And so coming back to this question of

backing, I want us to go market structure. Some people will say, "Well, gee, George, what are you worried about?" 64 billion Tether, Bitcoin, 650 billion, and it's only 10th of this size. They're completely missing the point. Go back to what I said a minute ago. When the bull market started, this bull market started, Bitcoin had 200 billion market cap give or take. I've read extensively on this. And people seem to think that the free float of Bitcoin is somewhere between 10 and 20%, i.e. that which is not being HODLed.

George Noble:
So let's be generous. Let's say it's 20%. If you have a $200 billion market cap, as of last fall, it would stand to reason that the free float is only 40 billion. If then all of a sudden someone's making a counterfeit coins, let's call these Tether... Let's say Bennet and I wanted to corner the market, [inaudible 00:33:35] the price of Bitcoin up, so we just counterfeit all this stuff, we counterfeit 60 billion or some large portion of 60 billion. Grant, you're enough of a financial market operator, if I tell you we have a $60 billion buy order to go into a market which only has a fifth $40 billion free float, $50 and double jeopardy, how high does the price go?

Grant Williams:
Now, look. You're absolutely right. And that's one of the thus far unanswered questions is exactly that. Are the Tethers backed and is this made up or is this, as I've seen the crypto community pivot to, this argument that, "Well, yes, they're fractionally reserved, but so is the banking system." That seems to be the latest response. Is that, "Well, why does it matter? Because the traditional banking system's fractionally reserved. So what does it matter if Tethers are?"

George Noble:
Yeah, but the only problem is, Tether's going to be, were saying we're a hundred percent backed, and Stuart Hoegner says, "Well, we're 74% back. Hmm, nothing to see here, move along." And then when they come out with it, they only purport to have three or 4% liquid and that was money they put into account one day, and took it out the next. It's like watch the red card, not the black. I think we have possibly, possibly we're looking at the biggest Ponzi scheme ever, ever. And what people are now in the Bitcoin community, they're ignoring this or they're willfully blind to this, or they're just ignorant about market structure and financial history. They don't realize the effect that counterfeiting can have in a market.

George Noble:
Grant, imagine, for instance, as an example, you own your house and some hot money... Say you own a house in Miami or New York City or whatever. And some hot money comes into the market from abroad, either some flight capital from Russia, China, Brazil, whatnot, and just drives the price, everything up. Okay, well, you haven't bought your house during that period of time, but there may be somebody who did, so he winds up paying a higher price because the price was elevated due to this sort of temporarily hyped artificial demand. And then let's say it turns out that demand disappears. So that was a temporary impulse, a manipulation, if you will. The prices collapses again. And I like to go back to look at past manipulations. Let's go back. I think it was 1979, Grant, or 1980. You'll correct me, but the Hunt brothers taking the price of silver and five to 50. So when you have these folks in the financial media running around saying, "Price is truth. Price is truth."

George Noble:
Was price truth when silver was $50? I think not. It went back down to five. So I think people are narrow-

ly... They got the blinders on. They're not taking effect of these impulses coming from elsewhere in particular, the effect that counterfeited Tether undoubtedly inflated the asset prices of everything in crypto and Bennet, maybe you could speak to this, but Grant, the percentage of transactions, Bitcoin transactions, the role the Tether plays in the crypto ecosystem, and it's sort of counterfactual, but what would have happened had these Tether not appeared out of thin air? And then finally, and the last one, I'll get to it. I know I'm throwing a lot of questions out there, and some of these are rhetorical questions, but some people say, "Okay, well Tether's fraudulent. We know that. All right. So yeah, there'll be a rug pull. When Tether goes belly up, fine. Bitcoin will go down temporarily, it'd be a temporary shock."

George Noble:
Actually, it's even more ludicrous in there. And again, lack of just basic finance. Some people say, "Well, if Tether goes down, Bitcoin's going to go up." Well, why is that? "Well, they're going to sell their Tether and go buy Bitcoin with it." I'm like, "Well, wait a second. I presumed this is the buyer for the Tether, number one. Number two, that's not the way it works." Grant, you would know, and Bennett, when you have a financial crisis, just by analogy in the markets... Go back to 2008. If a money market fund breaks the buck, and people are now wondering about how liquid they are. It's liquidity shock to the entire system. Everything goes down. We could argue what goes down fastest.

George Noble:
But if you have $100,000 dollars sitting in your Fidelity brokerage account, 70,000, which is invested and 30,000, which is say in the Fidelity cash reserve's money market fund, and as far as you're concerned, that's cash equivalent. And you find out one day that the money market fund broke the buck, and then all of a sudden that 30,000 isn't worth 30,000, it's something worth a lot less, you're less liquid than you thought you were, and you're probably it's liquidity [inaudible 00:38:03] argument, you're going to go sell some things. And so that's why Massad, the former commissioner of CFTC, I'm sure you all saw that article about three weeks ago, in the beginning of June was speaking about how this could be a nuclear winter for crypto. That this could be cataclysmic.

George Noble:
And so, I actually believe that the counterfeiting of Tether has played a material role in the price evolution of Bitcoin. This is not about the technology. The problem is when you talk to the Bitcoin acolytes, they'd like to be called Maxis or Maximalist. No, I think acolytes is more appropriate term. When you start talking about market structure and about the fundamental valuation of Bitcoin, their response is one of we'll look at the price. Somehow is if price is truth, or they'll give you some technobabble answer, which is irrelevant. We're talking about the price of Bitcoin, which it's gone up. We're in this hyper liquidity environment, price, and everything's going up. Everything [inaudible 00:39:02] price, whether it's crazy... It was crazy SPAC stocks a few months ago. EV stocks, whatever. Everything is going up, and Bitcoin, because it's relatively price and supply elastic, it's easy to push up, just like the price of silver was easy to push up 10x, 40 years ago.

George Noble:
So I think when Tether collapses, in my view, it's a question of when not if, it's going to have a very material effect on the price of Bitcoin, number one. Number two, more importantly, for those who think that once we get that shock out of the way, we're going to go back to our regular scheduled programming of 200% a year returns of Bitcoin, this whole price evolution, it's been a complete fugazi. It's been a complete

distortion. Again, I think we're witnessing the biggest Ponzi in the history of mankind right now with this Tether counterfeiting.

Grant Williams:
Spoken like a true salty, no coiner, I think they call you, George. Okay. So Bennet, let's dig into this a little bit. Let's suppose that the cattle start getting a little bit scared. Can you talk a little bit about the process for redeeming Tethers and the smoke that also perhaps coincidentally, but likely not, seems to be swirling around the redemption process for Tethers?

Bennett Tomlin:
Sure. I think George pointed to a really good thing with the money market's breaking the buck in 2008. I've written about this a little bit, but with the reserve primary fund, it ended up breaking the buck because 2% of its backing was in Lehman Brothers commercial paper, right? And then, that ended up, Lehman Brothers goes bankrupt, 60 or 65% of their assets are withdrawn from that money market fund within the next two days. And the reason I'm drawing attention to this is because Tether is backed 50% by commercial paper of unknown quality. And you'll often see a defense from certain Bitcoiners that the risk of a bank run on Tether is relatively low because there's never been one before. And Tether itself reserves the right to not redeem your Tethers, or if there's insufficient cash to give you whatever securities horses, whatever happened to be in the reserves.

Bennett Tomlin:
And so a bank run on Tether would look a little bit different than a bank run on a money market fund. The reason there's a lot of confusion and smoke around Tether redemptions is because there have been very few people who have been open, honest and forthright about what the process of issuance and redemption looks like. There's a few major desks who regularly talk about redeeming Tethers. I'm thinking of Galaxy Digital, CMS Holdings, and especially, Alameda Research. Alameda Research run by Sam and Sam. Sam of FTX, obviously. They have been very open recently that they are able to purchase Tethers, redeem Tethers, and that they actively arbitrage the peg, that when Tether is above or below a dollar, there'll be making those trades to try and make that free money, basically. The issue is the only people who have any right to redeem Tethers are Tether specific clients.

Bennett Tomlin:
So the few small desks or whatever who are set up and verified with Tether are then able to redeem. The vast majority of Tether holders have no path to redemption. They're not registered clients of Tether, and there's no real way for them to become registered clients of Tether because Tether keeps that group relatively small. And so, in the case where there starts to be an issue with the peg, the first ones to probably know about it would probably be Alameda. They would see the distortion in the peg, they would try to play it, and then quickly realize that something was wrong more than usual. And then, in that case, it's a little bit unclear exactly what would happen or what would then follow. The people who say Bitcoin would go up as people try to get out of Tether might be partially right on the Tether exchanges.

Bennett Tomlin:
So what I would expect you would see in those cases is a huge premium open up between the price of Bitcoin on exchanges that primarily denominate in Tether, and the price of Bitcoin on exchanges that primarily nominate in US dollars. So on an exchange like Binance, where a lot of the pairs are against Tether, you

might see people willing to trade absurd amounts of Tether for one Bitcoin, 10 million Tethers, 20 million Tethers, whatever, because everyone's aware there is some risk of Tether. And so if something starts to go wrong, there's a contingent of people who are going to be pretty sure it might be the thing going wrong. Meanwhile, though, I expect you would see anyone else who is able to start to exit the market because they recognize that a $64 billion pool of liquidity potentially evaporating in this small of a market, especially one that collateralized so much of the futures and so much leverage in the space is likely to be damaging to the price of these assets.

Bennett Tomlin:
And so, because only a few people can redeem, it's a little bit unclear what redemptions actually look like. So the traditional model of Tether, the one that's described in the white paper is you give your cash to Tether, then they issue the Tethers. You use your Tethers, and when you're done, you take them back like the chips to the casino. It was revealed in the New York attorney general investigation that things were a little more complicated than that. That Tether was loaning out Tethers to various trading firms, including ones in New York and things like that. And so my intuition about this is that likely, many of the desks issuing and redeeming Tethers are not necessarily giving dollars, and then getting dollars out. There's likely more complicated loan agreements and stuff like that between Tether and these clients. And so without a better view into what that might look like or what a redemption actually is, it's a little bit hard to determine what would likely.

Grant Williams:
Let's talk a little bit about the patterns of Tether printing because that's something else that fascinates me. We've seen enormous amounts of Tether get printed at very interesting junctures in the market, and the pattern of what the Bitcoin price does is highly predictable. And then, several months ago around the time of the New York attorney general ruling, the Tether issuance seemed to plateau and go sideways for some considerable amount of time. At the same time, or certainly more recently, we started to see a lot more activity in Circle, another stablecoin. So perhaps you could talk a little bit about those trading patterns between Tether and Bitcoin, the issuance patterns and where something like Circle comes into this story.

Bennett Tomlin:
There's been lots of people who've tried to use Tether issuance to try to find predictive relationships with Bitcoin price. Griffin and Shams did their paper taking a look at that where they came to the conclusion that Tether flows were predictive and may have been manipulating the price of Bitcoin. Part of the issue with me is fraudulent printing of Tether looks a lot like a whole bunch of new money legitimately entering the ecosystem. If someone just happened to actually give Tether $20 billion or whatever, it would look a lot like Tether printing 20 billion fake dollars. And so just those patterns alone for me are not sufficient evidence that there's anything amiss there. But what's more strange to me is how rarely you see the market cap of Tether go down. So recently with USDC, since the market has started going down, we've actually seen pretty significant redemptions of USDC, and the number of outstanding has decreased.

Bennett Tomlin:
With Tether, we have yet to see that. And throughout their history, there's only a few specific periods where we have seen that. From 2014 through 2018, there was only one or two minor redemptions that actually dropped the market cap of Tether, and then there was a few in 2018 where we actually saw the market cap of Tether decrease. And then since then, I do not believe the market cap of Tether has ever de-

creased. So either no one's actually redeeming. There's always less redemptions than there is new interest in Tether or there's something else going on because unlike the other stablecoins, you basically see Tether's market cap continually increase.

George Noble:
And if I could just jump in, the nature of the crypto market is such that because the miners are mining, there's a continual need for Fiat inflow into the system to sustain prices. Because the miners are mining in order to sell them at some point whether it's sell them straight away or later, it doesn't matter. And obviously this varies with the hash rate and whatnot, but when we did the calculation the other day, it's like two weeks old, the number of Bitcoins being created was about 900 a day. It's lower now. 900 a day, which at today's price would be about $30 million a day, which for an entire month would be running upwards of $900 million. Let's call it a billion, I like round numbers. And then if you just then figure out and then look at it's only half the market, and then there's all the other coins, maybe two billion, but just humor me for a second.

George Noble:
So you're talking two billion a month need of extra supply coming on, which if so, is going to push down prices. This is the way a Ponzi works. You need ever increasing amounts of money to sustain the price. And then to your point, not only has the amount of Tether never gone down, it's kind of interesting. The creation has gone flat recently. It hasn't gone up all that much material amount. But if you look to the ETF flows, we've seen not one, not two, but three consecutive weeks of outflows. I think a total of around 220 million from memory. And so if you say, "Right, well, liquidity is draining. The USDC is going down, and ETF flows are negative." And then you recognize that the system really needs more Fiat to keep going, and then you see things like Binance. I don't know.

George Noble:
Bennett, it may be the famous story you said before about the arbitrage guy. Maybe he could explain this to us also. You see the posted interest rates, two weeks ago... I can see you guys are laughing. Two weeks ago, Binance was averaging 71% interest rates. Grant, wait, there's more, then it went to 81%. The last one I saw was 100%. Like for $50 and double jeopardy, Grant. If you're walking down the street and you see a bank offering the 70% interest rate, forget about 100% interest rate, you would run out, walk as fast as you can away from that bank. Move along, nothing to see here. This is a madness. If it looks like a fraud, smells like fraud, quacks like a fraud, it's a fraud.

Grant Williams:
George, this is interesting. Let me dig into this because this speaks, I think, to the point you made about each of the sides not understanding the other. This is, I think, at the very heart of this, because those double-digit interest rates, people do get paid them. People do get paid them. There are people who have staked their coins and who have been paid 70% interest rates over a short period of time. They have been paid 20, 30, 40, 50%. And it works right. But this is why I think it's important for people who are doing this to understand the point you're making, because you can get 70% on your fiatst Bitcoin, you can get 70% on your second Bitcoin. You can get to 70%, on your third Bitcoin, but when the fourth one goes, boom, and the whole thing goes away, you lose your Bitcoin.

George Noble:
And also if you have to stake it for a long period of time, you can't get it out.

Grant Williams:
Exactly. Let's talk about this for a second, because to the idea that basically each side of this has 50% of the complete understanding of the picture, let's try and explain to people how these schemes work and why the fact that you got 70% interest once, doesn't necessarily mean it's a good idea to roll the dice and try and get 71% the following week. Just explain how that works and how those schemes tend to unravel.

George Noble:
Well, it's always a question of definition of a Ponzi is robbing Peter to pay Paul, right? So it's like you said, we'll pay at 70% on the first coin, the second, and the third coin. And as more and more people get attracted to this whole scheme, we need more and more inflows to keep paying people off to make to lend the appearance that it's okay. And as long as money keeps coming in, it works. So let's go back to Madoff. And it's a little bit different, but let's also go back to when the mortgage backed securities market blew up in '08. People say, "Well, everyone knows Tether's the problem. Don't worry about it, yada yada." Well, go back to Madoff. Madoff, especially because I think he was president of the NASD, and he kept putting out these 12% returns or whatever they were. Remarkably stable.

George Noble:
But as long as the market environment was okay, and the odd person tried to get the money out, but who'd want to get the money out, making those kinds of returns, he was above suspicion. But it was only in the aftermath of the crash in '08 that more people want to take their money out. Then that's when the problem started. All right. And so it all goes to the confidence in the system. And then I digress for one second, but let's go back to Lehman and Bear going bankrupt in '08. It was the mortgage backed securities market that was their undoing. What it was, was the loss of confidence in their solvency, which of course was tied to the mortgage backed securities market. But what really brought them down was their inability to roll their paper. They were 40 or 50 times levered.

George Noble:
And if they couldn't roll their paper, if they lost the confidence of the markets, couldn't fund themselves, it was game over. All right. So that's what brought them down. That's what brought Madoff down. Tether's a weird situation because they don't have external liabilities in the form of equity or debt. They have these coins. But if everyone comes to realize that the coins are maybe confetti money and we've all been had by Grant Williams' casino and he's taken our money and made off of it, then I think people are going to start to say, "Wait a second. This is all monopoly money. Get me out. I want to sell everything. Oh, by the way, oh my God, they've been counterfeiting this Tether for how long? Oh, well, what would Bitcoin have done without this?"

George Noble:
And then the most interesting thing is if the go to try to sell some Bitcoin, and the pumping stops because of counterfeiting, because the authorities cracked down on them. And again, we haven't really talked about this, but I know you're aware of this Grant, but I just think we're witnessing regulatory failure on just a massive, massive scale. And it's not just crypto, it's everything. So the point is with people going to try to sell Bitcoin and fiat's leaving the system, and there's no counterfeit Tether that'll prop up the price, people

live by the sword, die by the sword. They've benefited from the inelastic supply curve, but that can cut both ways. The elevator will go down much faster than it went up. And I think people in the crypto markets, they really need to study their financial history to understand what it means when you have such a one-sided market.

Grant Williams:
Yeah. The idea of financial history again, is such an important one for people to understand. But the other thing I think is Jim Chanos has called this the golden age of fraud. The golden age of white collar crime. The other part of this seems to be regulatory. There's a component of this that seems to be not just in the crypto space, but there seems to be a dereliction of duty on the part of regulators right across financial markets, whether it be the kind of slap on the wrist that Elon Musk had for his securities fraud. Let's face it, it was securities fraud, and for the rest of his life, he can never deny having committed it, but it was a slap on the wrist. It wasn't this idea that we'll pay the fine, but not admit any wrongdoing.

Grant Williams:
So the New York attorney general in the case of Tether seems to have set out her stall. And even though the actual settlement seems to be a poultry amount and given the numbers we're talking here, it feels given the reaction to the release of those two highly detailed pie charts of Tether about where their assets are held, it feels to me like maybe there is some teeth in that ruling. Bennett, I think the work that you and Cas and others have done in drawing attention to that, to me means that when the next data is released at the end of this quarter which will presumably, provide there aren't any strange delays, be in a matter of weeks. For every one set of eyeballs that was looking at those pie charts in May, there'll be five looking at them when they get released in July. So maybe there is some teeth in this New York attorney general ruling after all. George, what do you think about that?

George Noble:
I totally agree. Look, the New York attorney general is working on behalf of the residents of the state of New York. So she got what she needed, which was to ban them from ever doing business again in the state of New York. I'm of the belief that as you rightly pointed out, the wording of that settlement is incredibly damning. All right. Now the apologists will say, "Well, it was only $18 million." The DOJ has been in on this since 2018. I think Bennett has some thoughts about it, there's also perhaps another case going on, but you should speak to this, that's going on involving one of the other luminaries that you mentioned before, which is kind of related to this whole thing, which may be accounting for why the DOJ is taking so long, but Michael Green made an excellent point the other day. Everyone keeps saying, "Well, when's this going to become unwound?"

George Noble:
I know Bennett, you said the time's you thought we're getting very close, and I think Grant said the same thing. But we have no idea. It could be next week. It could be next year, who the heck knows? All right. But Michael Green made a very interesting point. And he said that the whole colonial pipeline fiasco from a few weeks ago when the ransom was paid out in Bitcoin, the Feds were able to get some claws over their back because the bad guys had gotten carelessness, and so on and so forth. But it seemingly has set off alarm bells, and authorities now realize just how dangerous, and how vulnerable the situation is. I'd point out to you, I'm sure you're aware of this, but to our listeners just this past week over the weekend, the UK took some regulatory action against was it Binance, I think? As was the case in Canada, in Japan.

George Noble:
So I think the wagons are circling. And as Michael Green said, the bear has been poked. The regulators have woken up. I'd frankly would be surprised if we don't see something happening relatively soon, whether we measure that in weeks or months, I don't know. And speaking to some major financial institutions, they've got a problem now because this KYC thing has landed on their lap. What do they do? Sorry, the Bitcoin thing, the crypto issue has landed on their lap. What do they do? And you have the SEC, which turns down one Bitcoin ETF application after another, and for good reason. So this is square and center in front of the regulators now. They can't ignore it. So I think they're keenly focused on it. I don't know, Bennett, what's your take on that? And specifically, you mentioned this other case going, which you thought may in part be accounting for why the DOJ process has taken so long?

Bennett Tomlin:
Yeah. The DOJ subpoenaed Bitfinex and Tether back in 2018 supposedly as part of an investigation into price manipulation of Bitcoin. I think one of the big things that has slowed that case down is the Reggie Fowler case. So Reggie Fowler, former part owner of the Minnesota Vikings was one of the principles for Crypto Capital Corp and was arrested and has been going through his case. That case has had a lot of delays. He initially was going to sign a plea deal, and then he showed up to court having told the judge he was going to sign a plea deal, and they ended up not signing the plea deal. Then because he wasn't paying his lawyers, his lawyers stopped representing him. And it took him a long time to find new lawyers who would represent him. And then there have been a whole bunch of COVID related delays and hearing related delays.

Bennett Tomlin:
So he was arrested back in late 2018. And that case is supposed to be going to trial soon, I think, and as we mentioned before, Crypto Capital Corp was this shadow bank for Bitfinex and Tether and was involved in all this pretty clearly unsavory activity. And so my intuition is that there might be things, that, that case is likely related in many ways both large and small to any case against Bitfinex and Tether. And so that may be one of the things contributing to how slow the Department of Justice has been for this.

George Noble:
Look, clearly, there's an amount of deduction that's required here. But one thing I would say, given all the risks involved, even if you... For those who still like crypto, without hesitation, get your coins off the exchanges by all means. Even the Bitcoin acolytes will tell you that because I know there's a risk when this thing goes down, given that exchanges are the same as the brokers, they all owe each other and they're cross-collateralized all this other nonsense. If you have any money stuck in those exchanges, good luck getting paid out. It'll take years before they can untangle all this stuff. So I think these exchanges should be avoided like the plague. And the other thing too, and I know Bennett, you've spoken on this, and Grant, I don't know if it's relevant for this, or we have enough time to talk about this, but Bennett, maybe you could speak to a role that a lot of these social influencers have been playing and the way they've been leading... Really, it's almost engaging. It's just the securities violation was promoting things.

George Noble:
And then, related to that, I have a real hard time with, I know Bennett, you'd spoken about regulatory capture. There are people who know better, former officials who know better, who should be speaking out. It's like when you see the signs on New York City subway system, when you see something, say some-

thing, but they're all HODLing their coins or feathering their own nest or whatever, and it's just horrible. There are a lot of people in a position to speak out, they don't, and they're using a lot of retail investors, just abusing them. And so I don't know. Bennett, maybe speak to the regulatory capture or the role of social influencers because the moral outrage I have against this, it's just staggering.

Bennett Tomlin:
Yeah. So Cast and I actually did an episode on that recently with what we claimed are shill-fluencers, which are these influencers in the cryptocurrency space who are basically continually, actively committing securities manipulation, or at least disclosure issues. And often what they'll do is they'll get a discounted part of a coin as part of a pre-sale in exchange for them promoting it to the wider public. And because these coins often have such vanishingly, low liquidity, they can't actually exit their position. They've got such a small number of the coins and the liquidity is so small, they can't actually exit. And so often what you'll see these shill-fluencers do is promote the coin while they're selling it to basically create the liquidity they need to exit. You'll also see this with some of the less savory VC funds in crypto where they'll get large pre-sale allocations and then immediately start dumping while still writing positive reports or generally promoting it because they're trying to create the liquidity for their own exit. And that's just a very common pattern you see in crypto.

Bennett Tomlin:
And I'm reminded of like Brad Mills comment about Max Keiser where Max Keiser is a Bitcoin promoter who has also created a couple of his own coins and promoted those and done some less than savory things in that regard. And when Max was being criticized for some of that after he spoke at the Bitcoin Conference, Brad mills, who's another Bitcoinner immediately came to his defense and was like, "Well, yeah, but that was 2015. Everyone was scamming back then." And it's just such an expected part of the crypto ecosystem that if you scammed six years ago, you're clean by now. So that just speaks to crypto more broadly.

Bennett Tomlin:
And then the other question was about regulatory capture, and I think we've really seen a lot more of that recently. The most striking example for me was Brian Brooks who was the acting comptroller of the currency under Donald Trump ended up leaving that position and immediately went and became CEO of Binance, US. And this was in the context of the Tai Chi document, talking about Binance's regulatory arbitrage strategy, getting leaked and all that. You would think the former comptroller of currency would know better than to do some of these things, yet he left his role in the Federal Government as a regulator, and immediately went through the revolving door into a CEO position at Binance, US.

Grant Williams:
Yeah, this does bring us on to the characters in the space. And I find myself really puzzling about this because in amongst people who I think are just flat out shills in this space, and there are a lot of them, and look, any nascent corner of the financial markets like this is always the Wild West, George. You and I have seen this for years. It's always the Wild West until some kind of sheriff puts on a badge and wanders in the stars to clean up Dodge. But in the midst of a lot of people who I recognize, because I've seen this kind of behavior in all kinds of instruments over the years, I find people for whom I have a tremendous amount of respect in amongst this, mixing out with people and not shilling necessarily, but being very strong advocates for Bitcoin in specific terms, and crypto in general. So I find myself in a very puzzling place with this. George, what do you make of the way Wall Street has embraced crypto?

George Noble:
Look, they're all talking from a point of self-interest.

Grant Williams:
Yeah, that's Wall Street. Let's face it.

George Noble:
They're all talking their book. And Wall Street's always been a den of thieves. We know that. But I think what's happening, going back to your point about Jim Chanos, we're living through the golden age of white collar crime, there is no sheriff on the beat. And so every one of these that's let by, it just emboldens everybody else to do likewise. And it's not just taking personalities, and by the way, did you see… I think it just happened yesterday or the day before, Tom Brady and his wife came out, I can't remember what it was, for FTX or something like-

Grant Williams:
FTX, yeah.

George Noble:
By the way, Grant, you asked me of this story. We know the history of, and Bennett, maybe you're too young for this, but we know the history of usually what happens when companies put their names on stadiums or arenas. I give you Enron Field in Houston, and one of the best ones, it never opened as such, but with the New England Patriots play… I lived in Boston for so many years, Gillette stadium, horror of horrors before it opened, it was named CMGI Field, which you may recall that cycle was the most spectacular of all the busts. And so you don't see these things at bottoms. Let's just put it charitably. But coming back to it, there are people who know better. So there are a lot of regulators who know better. It's one thing, if you're just some… And I feel sorry for all the individual investors who are going to get bagged in this.

George Noble:
And by the way, the reason [inaudible 01:06:54] to this down is because as painful as the adjustment process might be, if it's allowed to grow and metastasize, it's going to get even bigger. But you have people who don't know. Individual investors maybe being conned by the nonsense coming out of Wall Street and some of these promoters, and then you have people who know better. And it's just, they know where their bread is buttered, and they're not saying anything. And those are the people I have the highest contempt for.

Grant Williams:
Look, it is madness, but it speaks to the power of narrative, it speaks to being a good sales person for an idea, which is what-

George Noble:
Sorry to interrupt, but it's is exactly Elon Musk. It's the same thing. It's the power of the narrative. All right. And that's the problem. Again, going back to my discussions with the Bitcoin acolytes, I talk in terms of figures, they speak in terms of narrative.

Grant Williams:
Before we wrap this up, there's a couple of bits of this story that... And I hate to jump around, but I have forgotten to bring those into the discussion because they are important. And again, they speak to the smoke surrounding Tether. And the first one of those Bennett is the way the Tether audit has gone. This is something that has been promised for... I don't know how many years this has been promised, but the story of that promise and how it's played out and also how it turned into an attestation, and then the kind of machinery that went around that attestation, I think is another important thing to come back. So with apologies for jumping around, can I just take us back to that? And you just lay out the story of the Tether audit, because let's face it, given everything we've talked about, a clean audit from Tether would instantly, to George's earlier point, make the skeptics scuttle back into their holes and allow this thing to progress as it is.

Bennett Tomlin:
Yeah. So the best place to start with is actually in late 2016 when Bitfinex is hacked. One of the largest Bitcoin hacks in history. They end up having to haircut their customers take like 36% off of what they claimed at the time was everyone's account and replace it with this BFX token, which was meant to be valued at a dollar. And over time, they would give you the dollars and take your BFX tokens. And eventually, you'd be made whole. It later came out due to some reporting by Nathaniel Popper at the Times, that not everyone actually did get the haircut. Coinbase threatened to sue, so their account didn't get the haircut. But as part of this stuff surrounding this, there was a lot of criticisms of Bitfinex and people who thought that Bitfinex might be holding their own corporate funds in reserve, that the haircut was larger than it needed to be, which it was, we just established, not every account was haircut.

Bennett Tomlin:
And so Bitfinex promised that they would share the methodology for the haircut, which they never did because they can't. They can't show that they didn't haircut everyone. And they also promised a full security and a full financial audit. Tether had been promising an audit since 2014 when they first started and never provided one. But finally, a couple months after this hack, Bitfinex and Tether both hired Friedman out of New York to audit both of their books. Complicating things right around this same time, Wells Fargo cutoff Bitfinex and Tether from banking. So March of 2017, Bitfinex repays all their BFX tokens and immediately loses banking in the same week. The timeline's a little unclear what was happening that week, but Bitfinex claims to repay all the BFX tokens. Wells Fargo cuts them off and Tether is now without banking for the next several months. Ostensibly, the backing that they claimed to have was about $61 million that they held in trust at the account of Stuart Hoegner, their general counsel.

George Noble:
Wait, Bennett, Stuart Hoegner was holding $61 million in his personal account of Bitfinex and Tether's money, are you serious?

Bennett Tomlin:
Yes, that's exactly true.

George Noble:
No, nothing to see here, just move along.

Bennett Tomlin:
The other problem during this period from March to September when we'll finally get to the attestation, the number of Tethers in circulation increases from about 50 million to about 440 million. Meanwhile, the only ostensible backing under Tether's control is the amount held in trust at Stu's account, which is never greater than 61 million. They claim the rest of their backing, during the New York attorney general investigation, is held at Bitfinex's account at NobleBank. Now, NobleBank is not a bank. It's an international financial entity started by Tether co-founder Brock Pierce and John Betts. So allegedly, the money is held at this account at NobleBank. That account during that period receive deposits from only two Bitfinex clients, neither of who purchased Tethers. Nonetheless, the number of Tethers in circulation increased from 50 million to 442 million, I think it was.

Bennett Tomlin:
During this period, Tether is supposed to be getting an audit from Friedman. Eventually, it becomes clear to Tether that an audit is not going to happen, but they do not disclose it to the public. We'll get to when they disclose it to public, but they create an agreement with Friedman for Friedman to do an attestation of Tether's bank account or of Tethers reserves on September 15th. On September 15th in the morning, Tether finally gets a bank account at NobleBank, the international financial entity started by Tether's co-founder. And that same day, hundreds of millions of dollars are transferred from Bitfinex's account at NobleBank to Tether's account. At 8:00 p.m. that evening, Friedman does their attestation, sees the money is in the account and gives the report to Tether with like... There's a lot of caveated language in that report basically saying, "We can't make these assurances or this assurances, we weren't able to see this or this, but from what we did see, there was this amount of dollars in these accounts, which is greater than this amount of Tethers, which are in circulation."

Grant Williams:
A specific time, on a specific time?

Bennett Tomlin:
Yes. And that's important here because the account was opened that morning and hundreds of millions of dollars came into the account that day. And as we discussed with Deltec before, the money doesn't necessarily stay in the account. When they got the Deltec letter, the money was there on the first, gone on the second. And so Tether gets this attestation and claims they're still working on an audit. A couple of months later, a Tether spokesperson admits that the audit is not going to happen citing the excruciatingly detailed procedures that the auditors were trying to follow. And so Tether does not get an audit. I would also like to add that as I mentioned before, Bitfinex also promised to get an audit. They have yet to release a statement on the progress of that audit. But I think it's pretty safe to say that they are also not going to get an audit due to excruciatingly detailed procedures.

Bennett Tomlin:
And it's funny to me to reflect on this because you've heard claims from a lot of Tether executives and Tether defenders that it's impossible to get an audit, but in the history of Tether, they hired an auditor. They had an auditor who agreed to do it. So every time I hear that, it's impossible, but there was the person who was going to do it. It obviously was possible. We'll say, Tether and Friedman's relationship dissolves. We don't technically know that Tether fired Friedman. It feels like a reasonably safe assumption, but the audit never happened and no audit of either company has ever happened.

George Noble:
I have to laugh because it's impossible to make this up, and also there was a brilliant TweetGram, I'm sure you saw it the other day. Someone took a GIF of Trump, of him and it said, "I've been under audit for 15 years." The audit's coming. We'll have the figures. Okay.

Grant Williams:
It's remarkable. And this distinction between an attestation and an audit is so important to understand, but again, when we come back to this, the understanding of the crypto community of the financial world, you can see here that Tether basically thought, well, you know what? We'll come out and we'll just say, "Hey, don't worry. We've had our attestation." And people will assume that's basically the same thing as an audit. And it's so different to an audit that it's really impossible to explain just how different it is, except to point to the fact that hundreds of millions of dollars were wired in to a bank account that was opened on a day, and this attestation was taken at 8:15 p.m. that evening. You don't really need to know anything else on that. There's so much smoke around that as to make you feel that you are actually on fire yourself, nevermind Tether or Bitfinex.

George Noble:
As I said earlier, Grant, sorry to interrupt, but it's like, again, when things aren't obvious, it's usually for a reason.

Grant Williams:
And that was the whole reason why I wanted to have this discussion. And I'm so grateful to both of you for taking all this time to do this, because look, there are things that we have proof of, and the NYAG ruling is the first place perhaps people should start if they want to dig into this further, but there is no proof of fraud. However, when I started looking into this story and I came across you Bennett and I started looking at your extraordinary work, as someone who is au fait with the world of finance, there is no doubt in my mind that there is something horribly wrong with this. And so that makes me question the people in the crypto community who are invested in this thing, not blowing up as being very keen on waving this away and saying, "There's nothing to see here." And when I wrote the piece I wrote recently, I approached two or three Bitcoin guys who I know who I think are great guys and I have a lot of respect for them, and their thought process, and the way they do evangelize Bitcoin, but there is a rigor to them and a sense of intellectual rigor that I have a lot of time for.

Grant Williams:
And I approached them to say, "Look, I'm writing a piece about Tether. I'm skeptical about it. It's going to be a skeptical piece. Do you want to actually write anything that I can quote you in to provide the other side to it?" And nobody came forward and nobody volunteered anything. I was offered some pieces that were written a year, a year and a half ago, and given the extraordinary level of output that a lot of these Bitcoin guys have, that again, struck me as interesting that people wouldn't want to do this. And the last time this happened to me was when I did a podcast about Tesla with Mark Spiegel, who was a very vociferous bear at the time.

Grant Williams:
And I offered up at the end of that conversation the chance for any bulls to come on the podcast, I'd give them equal air time for them to lay out exactly why this bear case which seems so compelling was wrong.

And forget the stock price, this wasn't about the stock price. The stock price of Tesla has done what the stock price of Tesla has done, but a lot of the accusations made about the company still stand unrefuted. And so, in closing this podcast with you guys, I would absolutely make the same offer here. I don't want to be accused of being biased. I know what I think about this having done a lot of reading. I know what I think about it having done a lot of research into it, and it's stinks to high heaven to me. But if there are any guys out there who can come on and give a credible refutation as to why this is all okay, and it's not... Anyone who wants to come on and say it's all FUD, I've got no time for that.

Grant Williams:
But Bennett, Cas, Amy Castor, Bitfinex have laid out an extraordinarily granular detail and done proper forensic work to try to expose this thing. And I would expect a similar level of rigor on the side of anyone who wants to debunk this, but I will give microphone time to anybody that wants to come on and provide a credible counter argument to what Bennett just laid out, to what George has laid out and to all these guys have done. So that is an open offer to anybody. You can reach me at info@grant-williams.com and please do, I would welcome, as I'm sure Bennett would, as I'm sure George would, anyone that can come on and refute the allegations made by them through their work. And I also offer the mic open to any executives of Tether or Bitfinex who want to come on and defend themselves.

Grant Williams:
This is not a hit job. This is hopefully an in-depth dive into what I find to be incredibly compelling work that suggests that one of the biggest components of the cryptocurrency market is an absolute fraud. So having said all that, Bennett again, my thanks to you, not just for giving up this time in your day, which I know is very busy, but for your extraordinary work, your extraordinary diligence in piecing this together. It's remarkable. And please do let people who are new to the story understand where they can follow you and perhaps Cas and the podcast because it's important to dig deeper, I think.

Bennett Tomlin:
Yeah. Thank you. I was glad to come on today. You can follow me on Twitter @BennettTomlin, which has three Ts in a row, because there's two at the end of my first name and one at the beginning of my last name. My co-host, you can follow @CasPiancey. We have our own podcast where we try to take a critical look at the cryptocurrency ecosystem called Crypto Critics' Corner. And you can read all of my writings at this point at bennettftomlin.com.

Grant Williams:
And Bennett, I think it's important at this point to say that you are not a crypto skeptic. You are not someone that has a big beef against crypto.

Bennett Tomlin:
I'm a crypto skeptic in like the Greek sense of skeptic, in that I generally try to hold most of my beliefs pretty lightly, but I find a lot of the ideas of cryptocurrency very compelling. And that's the reason I was attracted to the space in the first place. And I initially thought about working in the space.

Grant Williams:
And Mr. Noble, you and I get the chance to speak far too rarely. Hopefully, we can do it in person again soon, but just for people that want to follow you, because I know you again on Twitter, are all over this

story, and you've posted an awful lot of really interesting threads. Tell people where they can follow you because [inaudible 01:21:06].

George Noble:
Thanks Grant. One thing before I answer, I just want to make it very clear, I'm not anti-Bitcoin at all. I think the future of the world is we will have digital money. The Chinese already announced in a few weeks a digital yuan, we'll have digital dollars and all that. So I'm not anti-digital money at all. I'm just calling you out a specific fraud that I believe is taking place in regards to Tether, and I think the implications of that, how it's really influenced pricing of so many crypto assets. That's really my beef. Once we get this behind us, we'll revisit, but let me make it very clear, I'm not on a Bitcoin crusade, I'm just on a Tether crusade. So I don't like to have a high social media presence, but I felt compelled to speak out about this.

George Noble:
I'm on Twitter @gnoble79 or actually what's really the best place, if you go to LinkedIn. I'm on LinkedIn, I find that it's a better forum. So I put it all out there, but I've linked a lot of stuff from Bennett, Bitfinex and whatnot. So I think it's important we all speak up about this. Really it's a cry for the regulators to do something one way or the other. If Tether can give us a clean bill health, fine, we'll stand down from all this, but I just want to call something out that really desperately needs attention, so that's why we're doing this.

Grant Williams:
Fantastic. Well, look, gentlemen, my thanks to both of you for, as I said, giving up this time. I've enjoyed it immensely. And hopefully, this has brought what is a fascinating story, if nothing else, to a lot more people's attention and will let more people dig into it to try and uncover what really happens here. But however this plays out, I will be following it, and I will be relying on the two of you to help me do that. So again, my thanks to both of you.

George Noble:
Thanks very much, Grant.

Bennett Tomlin:
Thank you.

Grant Williams:
Nothing we discussed should be considered as investment advice. This conversation is for informational and hopefully entertainment purposes only. So while we hope you find it both informative and entertaining, please do your own research or speak to a financial advisor before putting a dime of your money into these crazy markets.

GRANT WILLIAMS

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