



SUN ZU Lab

Is Tether a \$48 bln scam?

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Opinion Paper



For those who follow the Tether story, there's been a recent development worth mentioning: the publication of an audit of Tether reserves by a third-party. The statement is available for download on their [front page](#). Tether does have a page with a statement of account ([here](#)), but as it is unaudited and uncertified it is not worth much.

There's been a lot of discussion about whether Tether is a scam of gigantic proportion, but overall those suspicions have had little effect on the rhythm of issuance, reaching today almost \$48 bln judging by the latest official figures on coinmarketcap. The immediate and intuitive reaction to this figure is that it's too big to be anything but real. How could one possibly get away with a scheme of that magnitude?

Unfortunately, it has happened in the past: Madoff ([estimated losses \\$18 bln](#)), Parmalat (when the scandal broke [\\$4 bln were missing](#)), Wirecard ([\\$1.9 bln missing](#)), Enron ([\\$40 bln bankruptcy](#) case following a corporate Ponzi scheme for more than 10 years, during which Enron was celebrated as one of the most innovative US companies). No, size is no guarantee of legitimacy or righteousness.

It is not the intention of this article to state that Tether is or is not a scam, although there are some troubling indicators (see for example the [report from New York Attorney General](#). Tether settled for \$18.5 million and was forbidden to conduct business in the State of New York). It belongs to each of us to build his or her own opinion. I have written before about the [typical information an investor should want to acquire](#) about an exchange before opening an account, the purpose of these lines is to apply a similar test to Tether by asking a few basic questions. With 25 years of capital markets experience under the belt, I submit that those questions should be investigated carefully by anybody interested in transacting Tether.



1. *Who is Tether?*

Well, we don't know. The [legal page](#) mentions two legal entities "Tether International Limited" and "Tether Limited". There is no address, no contact information, no place of incorporation, no regulatory entity. In the privacy policy we learn that Tether is registered in the British Virgin Islands (BVI) under the number 1939633, with a point of contact in Europe at Chaucer Group Limited, whose registered office is at 10 Lower Thames, London, EC3R 6EN. Still no official address or name, no direct contact information.

The management team shows 3 persons: no email address, no contact info, no linked in profile. On LinkedIn Tether lists 9 employees, among which none of the 3 persons listed on the site appears. In fact CEO, CFO and General Counsel do not appear to have a linkedin profile. Granted, not everybody has a linkedin profile, but for a company entrusted with \$48 bln from its clients, all of this is a little...light. Or maybe the site is not fully up to date? No comment.

2. *Transparency*

There are two statements of transparency on Tether's site: one dated June 1st 2018, the latest one dated Feb 28th 2021. Now a closer look at those documents:

The June 2018 statement is issued by what appears to be a reputable law firm based in Washington. Although a name is given on the letter, it is for reference only, there is no identified signatory, nor is there any mention of an individual personally responsible for the document. This incidentally is often a legal if not ethical obligation from auditors and/or accountants. For example after scandals such as Enron, auditors have to sign their name as an acceptance of the responsibilities they bear in certifying corporate accounts. The list of documents made available to the task force in charge of establishing the letter looks exhaustive and convincing. Strangely enough however, the list doesn't explicitly mention banking statements. It also doesn't explicitly mention the names of the two banks concerned. The form of the letter is also unexpected: it is not a public announcement, nor is it meant to be. It is explicitly a "client-attorney communication", marked as "privileged and confidential". Also, the document states that "FSS procedures performed are not for the purpose of providing assurance...". What then is the purpose of this document? It is clearly a step in the right direction but almost raises more questions than it answers.

The Feb 2021 statement is issued by an accounting firm based in the Cayman Islands, "Moore Cayman". Why not call upon FSS to perform an annual review to establish consistency? What happened between 2018 and 2021? No answer is provided to any of those questions. Like the FSS letter, the Moore document is not signed. Like 2018, none of the financial institutions where the money is deposited are named, nor do we know in which jurisdiction they operate or whether they are even regulated. Like 2018 the statement applies to one point





in time, not before, not after. No information is provided as to the beneficial owners of the funds, i.e. which Tether entity has legal responsibility on the corresponding bank accounts. Tether Holdings Limited is mentioned, what is the relationship between this entity and the ones mentioned on Tether's web site? There is no address, no contact, no email address not even for press inquiries (incidentally the press section doesn't show anything beyond 2015, which is surprising for a supposedly highly successful company). Moore Cayman may be a reputable firm, but it is fair to say that it absolutely unknown. Recent scandals show that calling upon large internationally recognized law and accounting firms doesn't guarantee that everything will be ok, but still it goes a long way.

3. Risk Management

Tether is entrusted with \$48 bln from its clients, the least you would expect is to have some indication on how this money is managed. Furthermore the token part of the equation is based on public blockchains (ethereum and others). Again the least you could expect is to have up-to-date information on the IT governance, in particular who is in charge and what are the resources dedicated to protecting Tether's clients and infrastructure?

None of this is available on the site. Are those \$48 bln invested? If so under what mandate(s), with which level of risk? Who has responsibility for overseeing performance and compliance for this kind of money? Who has responsibility for ensuring the information system is adequately protected and managed? What credentials do the management and IT teams have that give Tether holders some reassurance that their money will not vanish or be hacked? One might argue that if nothing has happened so far, surely the company has shown its ability to manage itself. Well, has something happened? Has money disappeared from bank accounts? Have tokens been hacked? More to the point: would we know if any of this had indeed materialized?

In its "fees" section Tether indicates that it will perform a "verification" to accept new clients. There is no indication of documents, KYC procedure, no address or contact or indication of anything before you submit to this verification (charged \$150). Apparently creating or redeeming Tether requires a minimum of \$100,000. In all fairness this is probably a consequence of the fact that Tether doesn't want to offer its services to clients who are not qualified investors (in the sense of US regulation). But in setting such a high threshold, the company loses the opportunity to interact directly with many smaller holders, and hence improve its communication and reputation.

Really, would you give \$100,000 to someone you know nothing about, domiciled in one of the least transparent places on Earth, without any idea as to how the money will be safeguarded, invested or used?

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The question remains as to why Tether management still refuses to provide more transparency. If indeed the company has nothing to hide, putting all



questions to rest is astonishingly easy: move the money to a select pool of large well-known banks, and have the statements properly audited by a select pool of large well-known auditing firms. Commit to performing and documenting funds certification for example quarterly and that's it, you're done. If Tether wanted to go a step further it could also disclose the investment strategy (or lack thereof) it pursues with the cash under its responsibility. In my mind there is only one reason why the firm doesn't follow those very simple steps.