Twitter Thread by Patrick McKenzie



Patrick McKenzie
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Bitfinex files discovery in "Yo bro, where did our $800 million go?" action and it is every bit as interesting as you'd expect it to

Here's their CFO describing their agreement (which we know from other litigation was never contractualized because, presumably because money launderers hate paper trails):

> 11. As part of the parties' agreement, besides a nominal fee for each deposit or withdrawal, Crypto Capital charged no fee for these services to iFinex because it was able to earn substantial interest on the funds it held on iFinex's behalf in its accounts. Crypto Capital's agreement to act as a payment processor was made by one of its principals—an individual who identified himself to me as Oz "Joseph." In 2019, I learned that Mr. Joseph's last name was actually "Yosef." Yosef was my primary contact at Crypto Capital and I had numerous communications with him by phone and text from the 2017 through early 2019.
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> 12. At no time did Crypto Capital or Yosef disclose any relationship between it and Spiral Global Development Limited or its sole director and shareholder, Reginald Dennis Fowler ("Fowler"). Indeed, until December 2018, Crypto Capital never disclosed that several of the bank accounts to which Bitfinex's customers transferred fiat funds were actually held and controlled by Spiral and Fowler, and not by Crypto Capital or any of its related entities.

Bitfinex's CFO was shocked, shocked to learn that the money launderer they engaged to provide money laundering services while I-swear-to-God-this-is-an-actual-quote "we learned to bank like criminals" may have from time to time lied to banks.

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"Institutional constraints" means, here, "We were attempting to avoid velocity checks placed by our banking partners to detect fraud and money laundering, which would have detected our fraud and money laundering."

iFinex Begins to Discover Crypto Capital's Malfeasance

13. From early 2017 through late 2018, Bitfinex customers transferred more than $1.5 billion to various bank accounts purportedly held or controlled by Crypto Capital. By July 2018, the amount Crypto Capital held and owed to iFinex exceeded $1 billion. I believe there were largely two reasons for this large balance: (1) an increasing interest in virtual currency trading and investment, leading to increasing amounts being transferred by Bitfinex customers; and (2) institutional constraints on the amount of funds that could be transferred between Crypto Capital accounts and iFinex's bank accounts.

Money at the speed of code, yadda yadda yadda, the Bitcoin economy is surprisingly blasé when several hundred million dollars is in an interstitial state for months.

In a situation never before encountered by a financial institution: the check was not, in fact, in the mail.

15. In or about late August 2018, however, Yosef began representing to me that approximately $500 million of Bitfinex funds in both Poland and Portugal were being "held up" by regulators in both countries. From then through November 2018, Yosef repeatedly reassured me that the Bitfinex funds held in Poland and Portugal were on the verge of being released and that Crypto Capital was working diligently with local authorities to secure their release.

Our money launderer may be engaged in layering, which we have extensive experience w... saw once on an episode of Breaking Bad and this unfamiliar jargon seemed surprisingly appropriate.

24. Based on my communications with Yosef, and to the best of our understanding of the limited banking records he has provided, Crypto Capital did not simply receive customer deposits into its various banking accounts and maintain those deposits with the initial bank receiving those funds. Rather, Crypto Capital subsequently transferred funds between and among various banks, including in Europe and the United States. In the U.S. alone, we have information that Crypto Capital used accounts held not only at HSBC and Citibank, but also Bank of America, Bank of Colorado, Enterprise Bank & Trust, Stearns Bank, Sun Trust, TD Bank, US Bank, and Wells Fargo.

(If you haven't seen it, the prestige television scene most likely to be mentioned in a compliance department presentation: https://t.co/Qmz7UUUPKn)