

I find it really fascinating to stroll through uncanny vallies.

Most people do not. Most people fucking hate it.

I often forget this fact, and fail to collapse wavefunctions that span the valley for way too long: because I actually don't mind the tension of the valley, even though I know, intellectually, that almost everyone is their worst self in them.

—

Here's an approximate list of what matters:

- 1) Being aligned and always doing whatever you think is best for the company
- 2) Being aligned and always doing whatever you think is best for the company
- 3) Being aligned and always doing whatever you think is best for the company
- 4) Being aligned and always doing whatever you think is best for the company
- 5) Being aligned and always doing whatever you think is best for the company
- 6) Being aligned and always doing whatever you think is best for the company
- 7) Being aligned and always doing whatever you think is best for the company
- 8) Being aligned and always doing whatever you think is best for the company
- 9) Being aligned and always doing whatever you think is best for the company
- 10) Being aligned and always doing whatever you think is best for the company
- 11) Being nice and fair to people
- 12) Being nice and fair to people
- 13) Being nice and fair to people
- 14) Being nice and fair to people
- 15) Being nice and fair to people
- 16) Working hard
- 17) Working hard
- 18) Working hard
- 19) Working hard
- 20) Working hard
- 21) Being smart
- 22) Having good instincts
- 23) Communicating well

Everything else is just the details.

So what's the relationship between Alameda and Modulo?

- 1) In the end it should be very good. Alameda and Modulo are both very good at #1-23 above, and are both very aligned.
- 2) However, in practice neither side is confident that the other side is acting cooperatively.

Enter the valley.

For instance, when negotiating the IWM/QQQ trade.

If Alameda and Modulo were working together, they would maximize for the sum and do the trade if it's positive sum. If they were 3rd parties who are independently profit maximizing, then they would negotiate back and forth on pricing.

Is Modulo part of the 'Alameda family', or an independent 3rd party firm?

The answer, really, is *neither*. The answer is that it's sorta complicated and liminal and unclear. It's in the uncanny valley.

And so rather than either resolving to a negotiation or to a net discussion, there was a wavefunction hovering over the two, straddling the line.

And that caused miscommunications: where EDF's terrible infrastructure was misinterpreted as price gouging, and where the time sensitivity of the trade was misinterpreted as disregard for Alameda's time and costs.

The thing that went wrong: standing in uncanny valley of alignment, Modulo tried to use Alameda for order execution. Both sides had only some of the facts, and both sides felt the other was misaligned.

And lack of trust rebounds.

I, SBF, basically think both Alameda and Modulo are really aligned and make reasonable thoughtful decisions. But I *don't* think there's fully mutual knowledge about that. And so even though, at the core, both Alameda and Modulo are aligned with each other, they don't fully realize this—and interpret things less favorably than they otherwise would because of it. Tension is created out of thin air, because the people involved don't go into it 100% confident there *couldn't* be tension. The *possibility* of tension *created* tension.

Anyway, maybe I'm wrong about some of the above. But I think it's probably basically correct.

And so I think what needs to happen, here, is to collapse the uncanny valley. Uncanny valleys are complicated and probabilistic and mixed, but I'm going to take a stab at collapsing it anyway, onto my current best guess at the real truth. Hopefully I'm right.

There's only one way to escape an uncanny valley: you have to collapse it to a single ground truth, *and you have to create mutual knowledge of the collapse*. Uncanny valleys can live on in peoples' minds even if they're otherwise eradicated, so the only way to really collapse the wave function is for *everyone to agree that it has been correctly collapsed*.

So here's a doc, to collapse this uncanny valley. I'm sharing this doc (comment access) simultaneously to both Alameda and Modulo; you can both confirm that, so *this creates full mutual knowledge of my attempt to collapse the wave function*.

Alameda gets ~68% of Modulo's profit: 100%*60% for LP, 20%*40% for GP. This should be treated similarly, by Alameda, as it making money itself.

And here is, at the end of the day, how I believe it is collapsing, and by the end of this doc will have fully collapsed:

- 1) Alameda wants what's best for Alameda + Modulo + FTX
- 2) Alameda is thoughtful and intentional and thinks alignment is very important
- 3) Modulo has done an impressive job of putting together trades potentially worth a ton long term in a pretty short period of time
- 4) Modulo wants what's best for Modulo + Alameda + FTX
- 5) Modulo has been thinking about Alameda's preferences in what it does, and thinks alignment is very important
- 6) Alameda has done a ton of extremely difficult and valuable things over the years, many of which aren't easy to see publicly, to help support the long-term joint prospects
 - a) Many of these will never be publicly known, and that's ok
- 7) SBF is aligned with Alameda + Modulo, and treats \$1 to any as the same even though ownership %'s aren't 100%, and in the end I will make sure that each side is fairly acknowledged and treated for public goods created
- 8) There are logistical/etc. reasons not to merge Alameda and Modulo, but SBF will now act how I would if they *were* merged outside of operational things.

Anyway, I'm declaring that 1-8 are true, always have been true, and even if not, will be true going forward.

Caroline/Ben/Lily – please leave a comment on this doc over this paragraph, which all 4 of you are shared on, by 4pm EST on Wednesday (8/17): Modulo comments either “I agree with 4-6 conditional on Alameda agreeing with 1-3” or “I don’t agree with 4-6”, and Alameda comments with either “I agree with 1-3 conditional on Modulo agreeing with 4-6” or “I don’t agree with 1-3”.

This could mean, going forward, some combination of:

- a) Just acting as if Alameda and Modulo were the same/fully aligned
- b) Maybe merging physical offices—I don't feel super strongly about this but I could imagine it being useful for both and bringing more energy to an office?
- c) Alameda 'puts the Modulo holdings on its balance sheet'. This would basically mean actually listing it out, so that it's more tangible that Modulo doing well is good for Alameda—similarly to e.g. FTT.
 - i) So probably marking LP stake to investment+0.6*PnL, and GP stake to 5*[annualized GP PnL] or something?
- d) Potentially chatting more about ways you think of trading/hiring/etc.
- e) Potentially doing a GP <> equity/token/etc. swap or something
- f) etc.