



# DGC

AUGUST 2011 #45

## **Send & Receive Digital Silver on Facebook**

**An Interview with  
Sidharth Sankar  
Founder of ZipPay**



Digital Gold Currency  
Magazine

PUBLISHER

**Mark Herpel**

CONTRIBUTORS

**Paul Rosenberg**

EDITOR

**Mark Herpel**

[editor@dgcmagazine.com](mailto:editor@dgcmagazine.com)

Skype "digitalcurrency"

<http://www.dgcmagazine.com>

DGC Magazine is committed to expanding the legal use of digital gold currency around the world. Slowly, legally and ethically we are trying to move digital gold currency and sound money forward into everyday business.

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**“I have this idea about payments for the sound-money industry that I want to implement on a large scale.”**

**Sidharth Sankar, ZipPay**

# An Interview with Sidharth Sankar, Founder of ZipPay



Today we are talking with Sidharth Sankar, the Founder of ZipPay. <https://apps.facebook.com/zippay-us>

Thanks for interviewing with us. I'm very excited about your project.

**(Q) What is ZipPay?**

ZipPay is a Facebook app to make and receive payments. ZipPay is different than PayPal in that balances are held in Silver instead of U.S. Dollars.

Imagine that I owed you \$10. If I paid you via PayPal, you get to hold ten U.S. Dollars in your Paypal balance. If I paid you via ZipPay, you get to hold Silver, that is worth ten U.S. Dollars, in your ZipPay balance. Which do you prefer to hold? Dollars, or Silver?

Mike Maloney, the famous author of Investing in Gold and Silver, has explained difference between currency and money. Currency is:

1. A unit of exchange for goods and services.
2. A unit of accounting.
3. Portable.
4. Divisible.
5. Fungible

*-(meaning, a Dollar bill in my hand is interchangeable with a Dollar bill in your hand, and both are considered identical)*

Money is all of the above, but mainly, a good store of value; meaning that, one unit of money will buy just as much next year, as it will buy today.

Personally, I like to think that currency is what you spend, money is what you save.

Legal tender laws arbitrarily decree that only the Dollar be used as a unit of exchange for goods and services. So it seems to me that while the Dollar can function

both as currency and money.

Silver can function only as money.

**(Q) So if both the Dollar and Silver can function as money, which form of money is superior? More precisely, which, is the better store of value?**

Historically, Gold and Silver have been known to be good stores of value when compared with the Dollar, especially during inflationary times. Besides, reckless deficit spending on Capitol Hill, financed in large part through Treasury purchases by the Fed, has all but guaranteed that Gold and Silver shall be superior forms of money.

So, ideally, while I'd like to continue to spend in Dollars, if only because everything in the marketplace is priced in Dollars; personally, I'd prefer to save in Gold or Silver. But if the amounts are small, then Silver, given its price, is more convenient to hold than Gold. Hence, ZipPay: Dollar payments, held in Silver.

**(Q) You are listed as the Founder of ZipPay, can you detail for us what that definitions includes?**

I've been wearing multiple hats. I filed the paperwork to incorporate this company. I'm also the largest shareholder. I've been iterating on the business model for last two years. I've been conducting all negotiations with partners and payment processors. I've written the software. And from a legal standpoint, I'm also a Director and the CEO. However, Founder describes me best because I have this idea about payments for the sound-money industry that I want to implement on a large scale.

**(Q) Is ZipPay a corporation? What is the current business structure?**

I formed iFonePay LLC in the state of California, in

March 2008, to test a couple of ideas floating in my head revolving around mobile payments. Payment processors would not grant me an account unless I formed a business entity. So I formed a company and named it iFonePay, because my original idea was to test a mobile payment app for the iPhone.

In November 2009, I quit my day job to start working for myself. My idea was to do payments via ACH. I was going to debit the payer's checking account and credit the recipient's checking account, for a small fee.

The biggest hurdle in launching a successful product, is creating a critical mass. It occurred to me that the most promising approach to solve this problem was to plug into the Facebook platform. It provided the ability to import user profiles instead of having the user enter information manually, and also offered the possibility to grow exponentially by taking advantage of the network effect. So all my users were to identified by their Facebook profiles.

Because it was to be a Facebook app and not an iPhone app, I decided to rename it, ZipPay.

Payment processors are nervous about ACH debit; especially so if a start-up wants to debit. And if it's a Facebook start up .... well, you get the picture. After many months of negotiations, I finally did manage to get processor to let me do ACH debit. But his collateral requirements were too high. So I decided to change the business model: I was going to charge the payer's card and credit the recipient's checking account.

The many months of negotiations with payment processors taught me a painful lesson: when up against a seasoned negotiator, I always loose. I needed help. I requested my friend Henry Huta, who has been a turnaround CEO for over 20 years, and is

currently the CEO of Eco-Earth-Energy, to help me negotiate successfully. He generously agreed. His first recommendation was that I form a Corporation, preferably not in California, because it is easier to raise capital for a Corporation than for an LLC. I went

shopping. I choose Wyoming because paperwork was a breeze, annual fee was reasonable, and additionally, I have been to Grand Teton National Park and I think it's enchanting. So I formed iFonePay Corp. in April 2010, with four shareholders including myself, in the state of Wyoming. iFonePay LLC is a wholly-owned subsidiary of iFonePay Corp.

**(Q) One of the biggest stumbling blocks for digital currency backed by precious metals has (so far) been the relationship between user and merchant. While the transactions are simple, cheaper and instant using a digital precious metals system, getting a local brick and mortar merchant to accept POS payments in digital currency can be a negative issue. A primary cause of this issue can be traced back to accounting and tax issues. Since precious metals are an "asset" and not a currency in the United States, using them in daily commerce creates specific tax obligations and accounting for these gains or losses is almost impossible. In fact the IRS has not specified how to do such a system, so IMHO it's anyone's guess right now. However, on a state by state basis, local government's are now addressing this issue by declaring gold and silver minted U.S. coins to be legal tender currency. This removes the identification of precious metals as an asset and makes them currency just like a paper dollar. This is also how the U.S. Constitution envisioned**

**currency as metal. How do you see the ZipPay model working?**

I look at my model a little differently: I make a distinction between currency and money (asset). Imagine that

***By signing up for ZipPay, the merchant is making a conscious decision to hold receivables in the form of Silver. However, he continues to conduct business in Dollars. All his merchandise continues to be priced in Dollars. He can continue to charge his customer's debit or credit card, in Dollars, for purchases.***

you had a personal banker and you gave him two instructions: When a deposit is made to your account, he is to use those funds to buy Silver for storage in the vault. When a demand (withdrawal) is made on your account, he is to withdraw Silver from the vault, sell it, and fund your account. ZipPay functions like your personal banker. Quite honestly, I haven't looked into tax obligations.

**(Q) Please detail for us how the card payments work?**

Imagine that I owed you \$10 and I decide to pay with my card.

Let's use the analogy of the personal banker.

ZipPay will charge \$10 on my card. The funds are then used to purchase Silver for deposit to your ZipPay account.

Now imagine that I owed you \$10 and I decide to pay from my ZipPay balance.

ZipPay will deduct \$10 worth Silver from my ZipPay balance and deposit it to your ZipPay balance. Or else, you could interpret this to mean that you and I have a standing agreement to settle in Silver.

I'm not aware of any law precluding parties from settling in Silver if both parties are in prior agreement. Legal tender laws, as I understand it, prohibits you from declining to accept a \$10 bill from me to settle my debt with you. However, if you and I have a standing agreement to settle in Silver, where's the glitch? Isn't freedom of contract a fundamental tenet of common law?

Besides, even if this is problem, if the vault is located in Utah, where Gold and Silver are now considered legal tender, it wouldn't be a problem.

I'd like to re-iterate: I'm not a tax or legal expert. Perhaps I know only enough to be dangerous, but I don't see tax regulation or legal tender laws to be show-stoppers.

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# If George III Had Internet Surveillance:

Thomas Jefferson  
Died July 3, 1776

*After-action report:*

*The Office of Colonial Security had monitored suspicious transmissions between one Thomas Jefferson, who is described as studious and secretive, and at least a dozen other radical extremists, over a period of months. Finally, on July the second, they agreed together to execute their plan. Acting selflessly to preserve our way of life, agents of the Colonial Security Administration risked their lives storming the homes of the traitors and arrested them. However, the author of their extremist manifesto, Jefferson, after apparently setting his home afire with oil lamps, died in the resulting conflagration. All known copies of the manifesto were destroyed in the above-mentioned actions.*

*Privacy is a  
tragic thing  
to lose.*



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**(Q) In Russia, the massive non-bank WebMoney payment system has been incorporated into everyday accounting practices. If you are a local business and would like to also accept WM along with bank payments, there is even a book that is available from WebMoney that details the systems integration using local acceptable accounting practices. In other words the Russian's incorporate and encourage non bank payments, while the U.S. is blanketed with bank issued plastic. U.S. businesses are not yet ready to jump into accepting precious metal until someone or some system makes it so easy a child could understand it. ZipPay could be that vehicle.**

ZipPay for the U.S. merchant will not be a disruptive service. By using ZipPay, the merchant chooses to hold his receivables in the form of Silver.

When the customer walks in to make a purchase, the merchant will charge the customer's debit or credit card for the (Dollar) price of the article. The merchant then incurs a sales tax obligation for sale of the article to the customer.

ZipPay will use the proceeds from the sale, to sell Silver to the merchant for storage in the vault. This is another, distinct, but not-so-obvious sale. On this sale, ZipPay might incur a sales tax obligation for sale of Silver to the merchant. I say might, because ZipPay is an e-Commerce merchant in the business of re-selling Silver. Sale tax might, or might not apply. If does apply, then the sales tax rate in the state in which the vault is located would apply.

Because the merchant's receivables are stored in Silver, he will likely, over the course of the tax year, incur a gain or loss.

To summarize, I see three possible obligations in this business model: The merchant incurs a sales tax obligation for sale of the article to the customer. ZipPay might incur a sales tax obligation for sale of Silver to the merchant. At the end of the tax year, the merchant might incur a capital gains (or loss) tax obligation. It is reasonable to expect that ZipPay would compute and notify the merchant of his sales tax and capital gains (or losses).

I believe that ZipPay's business model is compliant with existing legal tender laws. By signing up for ZipPay, the merchant is making a conscious decision to hold

receivables in the form of Silver (money). However, he continues to conduct business in Dollars (currency). All his merchandise continues to be priced in Dollars. He can continue to charge his customer's debit or credit card, in Dollars, for purchases.

**(Q) But what, if the merchant wants to pay-off his vendor?** His receivables are locked in Silver. He can easily cash-out a portion of his balance in U.S. Dollars to pay-off his vendor. When the merchant chooses to cash-out, ZipPay is buying Silver back from the merchant. Because the merchant makes the sale this time, he might incur a sale tax obligation. In any case, ZipPay will deposit cash-out amount, in Dollars, to the merchant's checking account.

I'd like to re-iterate: I make a distinction between currency and money. Currency is what you spend in the marketplace for exchange of goods and services. Money is what you save. Currency = Dollar, Money = Dollar, Euro, Yen, Gold, Silver, or whatever can function as store of value. ZipPay = Dollar payments, held in Silver. Legal tender laws prohibit you from declining to accept Dollars as payment toward purchase of goods and services, you offer. However, I'm not aware of any law that prohibits you from buying Silver with Dollars. **DISCLAIMER: I'm not a legal expert.**

**(Q) [merchants already accept plastic and account for it][merchants don't yet accept grams or ounces so they don't yet know how to account for the transactions] Your system seems to incorporate the best of both worlds and could be based on silver eagles that are legal U.S. tender as in Utah?**

I believe that ZipPay can accommodate Silver eagles, bullion, bars, rounds, etc. Merchants can continue to work with Dollars.

**(Q) Now, why exactly, would a Merchant want to keep converting Dollars to Silver to hold receivables, and Silver, back to Dollars to pay vendors or meet expenses, when these conversions are expensive?**

I honestly think most merchants would choose to hold only a portion of their receivables, that they expect to save for the longer term, in Silver. In today's economic environment, even if you want to hold as little as \$1,000, for three months or more, you'd be better off holding in Silver.

**(Q) The current ZipPay Facebook application is**

located here:

<https://apps.facebook.com/zippay-us> it is very easy to understand and use. How long does it take to sign up for and begin using the Facebook ZipPay app?...in other words, if I sign up today, can I receive funds and send them just moments later?

Yes, we have a three-click sign-up process. Sign-up is free and personal information is not required. If you wish, you can immediately purchase Silver for deposit to your ZipPay balance. We accept VISA, MasterCard and Discover.

You can immediately make a payment to any friend on Facebook, including friends who haven't yet signed up with ZipPay. When you make a payment, you could either choose to pay with your card, or from your ZipPay balance. We'll instantaneously deposit Silver to you friend's balance. Your friend can then immediately use this deposit to make another payment, or cash-out in Dollars. For the present, payment amounts are limited to \$20 or less.

**(Q) How can I, as a Facebook user, load my national currency funds and get digital silver using ZipPay? (bank transfer, credit card, etc?)**

You currently can only use a regular credit or debit card to purchase Silver for deposit to your ZipPay balance. ZipPay is currently only available to US residents.

**(Q) Once I have a balance of digital silver, what can I do with it?**

You could either use it to make a payment to any friend on Facebook, including friends that haven't signed-up for ZipPay, or you could cash-out in Dollars. When you cash-out, we'll make the deposit to your checking account in two business days.

**(Q) I see from the Facebook application page that is a difference between the spot, buy and sell pricing. How is that determined and how often does that change? Spot Price: \$39.90/oz. Selling Price: \$43.09/oz. Buying Price: \$39.10/oz.**

When you receive a payment in Dollars, we sell Silver to you for deposit to your ZipPay balance, at selling price.

When you cash-out in Dollars, we buy Silver on deposit in your ZipPay balance, at buying price. Dollars are deposited to your checking account in two business days. Spot price is the last trading day's closing spot

price, and is sourced from Kitco. Selling price and buying price are keyed-off of spot price. I try to keep selling price approximately 8% above spot price and buying price about 2% below spot price. However, Silver is volatile and I cannot make any guarantees on these percentages. ZipPay is, in effect, a re-seller of Silver. When you receive a payment, we sell Silver to you. When you cash-out, we buy Silver from you. We make money by buying low and selling high. By buying in bulk, in bullion, the least expensive form of Silver, and during the inevitable dips, we hope to minimize the Dollar-cost average price in our vault. The spread between the Dollar-cost average price and selling price or buying price, is where we hope to make money. Spot price, selling price, and buying price are updated every trading day.

**(Q) Are there any "external" third party agents that today can exchange national currency for ZipPay credits?**

No. We don't offer ZipPay credits. We only offer Silver.

**(Q) Are there any plans allow or set up third party digital currency agents that can do exchanges for customers?**

No, not at the present moment.

**(Q) Is it possible to transfer PayPal into ZipPay?**

No, not at the present moment.

**(Q) Is there any method for me to deposit cash to my ZipPay account? For example is there a prepaid ZipPay card like a Facebook or iTunes card hanging somewhere?**

We don't have a prepaid ZipPay card.

**(Q) I see a lot of information about ZipPay being incorporated into mobile devices. This is very exciting. Can you tell us about the progress you are making in this direction?**

ZipPay for mobile devices is really the ZipPay web application for the mobile form-factor. You'll be able to pull it up on your smart phone's web browser. But we're not releasing it, just yet. We're currently focusing on the ZipPay app on Facebook.

**(Q) Is the mobile payments version backed by silver or is that simply a USD digital unit?**

All ZipPay payments will be held in Silver. We believe

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in 100% reserves and investment-grade metal. ZipPay for mobile devices is just another channel that will become available to access your ZipPay balance.

**(Q) The value that is in ZipPay right now, say I was today to deposit \$100...where is the silver vaulted?**

ZipPay reserves are held with Silver Saver, in their vault in Delaware.

**(Q) Down the road, are there any plans to make the balance and the transactions more transparent? (Example: third party audits of the silver, or an app showing how many transactions are done in a day, etc.?)**

Yes, absolutely!

After speaking with many individuals associated with the sound-money industry, I realized that there is a strong trend in America to go local, in all matters. Communities also want to have local control over their money.

Consequently, I've decided to improve on the business model. ZipPay will continue to process Dollar payments, held in Silver. But the vaults, which hold Silver, will be local. I hope this will engender trust in the community.

ZipPay currently supports only one vault- our own, held with Silver Saver in Delaware. With this new business model, ZipPay will support multiple vaults this allowing users the option to choose the vault in which they wish to hold money.

I'm also seriously considering closing ZipPay's vault with Silver Saver. To answer you question, I believe that ZipPay should be the party auditing third-party, local vaults, to ensure 100% reserves and investment-grade metal. By closing our vault, we can completely eliminate conflict of interest. Our interests will then be perfectly aligned with our user's interests. ZipPay will become a pure-play payment system for the sound-money industry.

**(Q) What are your plans right now for ZipPay?**

I'm currently in the process of integrating ZipPay

with a third-party, local vault, operated by Northern Colorado Barter ( <http://www.ncobarter.com> ) at Fort Collins, CO. Discussions are underway, and I hope to launch with them this month. Very soon, Fort Collins, CO, will experience the convenience of internet payments, the integrity of sound money, and the security of a local vault holding 100% reserves in investment-grade metal.

**(Q) I'd like to know, if there could be any type of partnership or business relationship such as vaulting that is possible for people who want to get into business with ZipPay...what is the next step to do this?**

I only have two requirements for a ZipPay-compatible vault:

1. 100% reserves
2. Investment-grade metal.

I expect to have multiple vaults to cater to diverse market requirements: Gold-only vaults, Silver-only vaults, Gold and Silver vaults. Bullion, bars, rounds, etc. Some vaults might choose to allow redemption in specie; yet others, might only allow cash-out in currency. Some vaults might choose to serve the local community. Others might serve the entire country. The variations are endless. I'd like ZipPay users to have the choice of holding money in any vault.

**(Q) Is there anything else you would like to discuss or request from our readers? What can we do to help?**

1. I'd like to integrate with one or more vaults in Utah.
2. I'm seeking investment from individuals interested in a payment system for the sound-money industry.

###

I'd like to thank Sidharth for his time and consideration when answering my questions. Special thanks to Fernanda Powers for her assistance.

INTERVIEW BY MARK HERPEL

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# 1099 Repeal Signed Into Law

From the Northwest Territorial Mint  
Federal Way, Washington

[http://bullion.nwtmint.com/1099\\_repealed.php](http://bullion.nwtmint.com/1099_repealed.php)

Precious metals investors can breathe a collective sigh of relief now that the 1099 repeal has been signed into law.

The controversial Form 1099 tax reporting requirements that were inserted into last year's 2,400-page healthcare legislation have been described by critics as intrusive, burdensome to businesses, and simply un-American.

Enacted as part of the Patient Protection and Affordable Care Act, the Form 1099 tax reporting requirements would have forced all businesses, including precious metals dealers, to issue a Form 1099 for all business transactions of \$600 or greater in total.

This small provision has drawn heated protests from gold and silver investors who have been rightfully concerned that the privacy of the American people would be compromised when conducting their own private transactions involving gold and silver with precious metal dealers.

The law would have compelled precious metals dealers to collect personal data on any individual who sold as little as a single ounce of gold and report that information to the IRS. The amount of paperwork required by this legislation would have been crippling. It is estimated that literally hundreds of millions if not billions of additional 1099 reports would need to be filed to the IRS each year.

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# REGISTRATION OPENS FOR SILVER SUMMIT 2011

**The ninth annual Silver Summit, to be held Thursday and Friday, October 20 and 21, in Spokane, Washington, today began taking registrations, and once again GATA Chairman Bill Murphy will be a speaker there. The conference's press release is below.**

Conference Press Release  
Thursday, July 7, 2011

Registration is open for the ninth annual Silver Summit 2011, the two-day "everything silver" conference presented by Cambridge House International, to be held Thursday and Friday, October 20-21, at the historic Davenport Hotel in Spokane, Washington. The Silver Summit is described by Pan American Silver founder Ross Beaty as "the best silver conference in the world."

Experts in all aspects of silver mining, silver investing, silver exploration, and silver's use in industrial, medical, and monetary applications will address the conference. Joining them will be more than 70 silver companies and an audience of a thousand from the United States, Canada, Mexico, Central and South America, Asia, and Australia.

Among the speakers will be silver luminaries Jeff Berwick, founder of Stockhouse.com and now publisher of the Dollar Vigilante; David Morgan of the Morgan Report; Bix Weir of the Road to Rooter newsletter; Jeff Christian, managing director of the CPM Group; Louis James of Casey Research; Bill Murphy, chairman of the Gold Anti-Trust Action Committee; Earl Bennett, dean emeritus of the Idaho College of Mines; and Jon Nadler, market analyst for Kitco Metals.

Also, Greg McCoach of the Mining Speculator; James West of the Midas Letter; Roger Weigand of the Trader Tracks letter; and John Kaiser of the Bottom Fishish Report.

Shauna Hillman, co-founder and director of the Silver Summit, said, "The Silver Summit is not just educational and profitable for our guests. It's also fun. This year we'll again offer optional underground and surface tours of real, operating silver mines in northern Idaho's Silver Valley, plenty of give and take between bulls and bears, cutting-edge information about silver, and the fellowship of silver bulls getting together from around the world. Friendships are made, private placements are done, and the CEOs of our silver companies will be on hand to meet their current and prospective shareholders."

Returning Silver Summit attendees should ensure that they are registered through the Cambridge House Internet site -- <http://cambridgehouse.com/conference-details/the-silver-summit-2011/48> -- as past attendees may not have been transferred to the Cambridge House database.

Admission to this year's Silver Summit costs \$40 or 1 troy ounce of .999 silver per person. Silver Summit discounts for rooming at the Davenport are available only by telephoning the Davenport directly at 1-800-899-1482 and requesting the Silver Summit discount.

Registration for the conference may be accomplished on-line at the Cambridge House International website or by telephoning the Silver Summit office at 208-556-1621.



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<https://www.swapgold.com>

# Summer Doldrums? Not a chance.

from Doug Tjaden  
Jul 27, 2011

It may seem like the sound money movement has lost momentum since the rush of attention in the wake of the passage of Utah's historic law and the introduction of the Sound Money Promotion Act in the United States Senate. Hardly.

Behind the scenes, work is continuing at a fevered pace. In Utah, depositories are begin prepared to open. We are working with them on implementation of the Sound Money Act. From South Carolina to Idaho, from Montana to Virginia, state activists and legislators are working strategies to introduce and pass legislation of their own. The Sound Money Summit is slated for September 26th and 27th in Deer Valley, Utah, and promises to be a watershed event in the monetary history of this nation. The web site for this summit will soon be released and we will send out a notification the moment that happens.

I am working directly with legislators and activists in Florida, Utah, Kansas, Missouri, Washington, Idaho, Montana, South Carolina and am making strategic contacts in Iowa, Minnesota and Virginia. On the radar are Oklahoma, Tennessee, and Colorado. So, as this blazing hot summer comes to a close, rest assured that work is continuing. As our national leaders argue over meaningless cuts in our national budget (even 4 trillion won't save the dollar), states are moving to protect their citizens.

Now is the time to get involved with your state legislators. Because of our national, state and local debt problems, 2012 could be the last chance states have to put sound money protection in place before some very difficult decisions are forced upon us. Decisions that will impact generations of Americans.

If you would like me to host a conference call, Skype meeting, Webinar or speak in your community or contact a state legislator with information on why sound money is a winning issue in 2012, please contact me. My next speaking engagement is scheduled for the Nullify Now event in Kansas City on August 20th. If you are in the KC area, please make plans to attend!

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# Representative Bobby Franklin Dies



*“Bobby was a man of strong convictions.”*

Georgia State Representative. Bobby Franklin (R-east Cobb) passed away in late July at his home. He died from heart related issues. We will miss him.

Rep. Franklin was responsible for the introduction of Georgia’s Constitutional Tender Act (11 LC 21 0912 House Bill 3)

[http://www1.legis.ga.gov/legis/2011\\_12/fulltext/hb3.htm](http://www1.legis.ga.gov/legis/2011_12/fulltext/hb3.htm)

First elected to the Georgia House of Representatives in 1996, Representative Bobby Franklin represents the 43rd District. Representative Franklin is serves as a member of the Banks & Banking, Information and Audits, Legislative and Congressional Reapportionment, and Judiciary (Non-Civil) Committees. He previously served on the Natural Resources and Environment and the Special Judiciary Committees.

A graduate of Covenant College in Lookout Mountain, Georgia, Representative Franklin earned a degree in both Biblical Studies and Business Administration. Bobby is an active member of the Reformed Presbyterian Church. Representative Franklin’s private sector experience as corporate controller, CFO, and business analyst enable him to bring sound business and fiscal principles to government. He has a record of consistently advocating for reducing the tax burden on Georgia citizens. Representative Franklin has been called “the conscience of the Republican Caucus” because he believes that civil government should return to its biblically and constitutionally defined role.

## **Forbes Columnist Charles Kadlec Appointed as Advisor to The Gold Standard Now**

**Charles Kadlec, an economic policy expert and columnist, has been appointed as an Advisor for TheGoldStandardNow.org**

Charles Kadlec has been appointed to TheGoldStandardNow.org, a project of the Lehrman Institute. Institute founder and chairman Lewis E. Lehrman said, “Charles Kadlec is one of the most respected monetary economists of our time. He has had substantial experience advising presidential candidates, writing for the most distinguished economic journals and newspapers. He is an economist who inspired and formed some of Congressman Jack Kemp’s major efforts in monetary and tax policy during the 1980s. He is a fine writer, constantly contributing well recognized analyses of contemporary economic and monetary events both national and international.”

Charles W. Kadlec is a member of the Economic Advisory Board of the American Principles Project, a juror for the Bastiat Prize for Journalism, and the founder of a Community of Liberty, whose mission is to promote the habits and virtues of living in liberty. He also writes for Forbes.com. He received his MBA with honors from the University of Chicago.

Upon accepting the appointment, Kadlec said, “The Gold Standard Now is a vital resource for anyone who has a serious interest in understanding and following the developments and arguments destined to make the dollar again as good as gold. I am honored to be among those who advise and support this important organization.”

## **Executive Director Andresen Blom Appointed as Advisor to The Gold Standard Now**

**Andresen Blom, Executive Director of the American Principles Project, has recently been appointed as an Advisor for TheGoldStandardNow.org**

Andresen Blom has been appointed as an Advisor to TheGoldStandardNow.org, a project of The Lehrman Institute. Institute founder and chairman Lewis E. Lehrman said: “Andresen Blom is the distinguished executive director of the American Principles Project of which Professor Robert George of Princeton is the founder and Sean Fieler the chairman. He is deeply respected for the major role he has played in Hawaiian politics as a values oriented political and public policy consultant. He has had substantial experience in the private sector as a vice president of a major mid-Atlantic bank. In addition he has owned and operated his own marketing and communications firm. We welcome him to the Board of Advisors of the Gold Standard Now.”

Andresen Blom is the executive director of the American Principles Project, an organization dedicated to propagating the principles on which the nation was founded. He also directed the McCain presidential campaign in Hawaii and is very active in the politics of the state.

Upon accepting his appointment, Blom said, “It is a signal honor to be asked to join the Gold Standard Now Advisory Board. Lewis Lehrman provides the leadership, stature and intellectual credibility necessary to move returning America to the Gold Standard from a theoretical discussion to a practical reality. America needs the Gold Standard now more than ever. Lewis Lehrman will help us all get there.”

Source: <http://www.prweb.com/>

# Anybody Seen Our Gold?



The gold reserves of the United States have not been fully and independently audited for half a century. Now there is proof that those gold reserves and those of other Western nations are being used for the surreptitious manipulation of the international currency, commodity, equity, and bond markets. The objective of this manipulation is to conceal the mismanagement of the U.S. dollar so that it might retain its function as the world's reserve currency. But to suppress the price of gold is to disable the barometer of the international financial system so that all markets may be more easily manipulated. This manipulation has been a primary cause of the catastrophic excesses in the markets that now threaten the whole world. Surreptitious market manipulation by government is leading the world to disaster. We want to expose it and stop it.

## **Who are we?**

We're the Gold Anti-Trust Action Committee Inc., a non-profit, federally tax-exempt civil rights and educational organization formed by people who recognize the necessity of free markets in the monetary metals. For information about GATA, visit <http://www.GATA.org>

## **GOLD ANTI-TRUST ACTION COMMITTEE INC.**

**7 Villa Louisa Road, Manchester, Connecticut 06043-7541 USA**

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# GATA



# Russia. Qivi Cash Terminals Top 20

The myth that Russia is still in large a cash economy is still very much true.

It's just a cash economy well equipped to convert cash on hands to electronic dollars, euros, rubles or virtually any currency. Many of these tools guarantee their clients complete or virtually complete anonymity. Some need it for to feed their gambling habit, others to profit from online bonuses and western Europe oriented promotions.

One of the popular alternatives to Webmoney, Moneta and other local payment services is Virtual Visa card from cash terminals operator Qivi. The service allows customers to deposit cash at any of Qivi's 100 thousand terminals all around Russia and receive an SMS with Visa card details that can be used online to make a deposit. The card guarantees complete anonymity, ease of online payments and no contracts. Customers are given virtual Visa

card that expires in 3 months and has a maximum balance limit of 15 thousand RUB (~\$540). Issue commission is min 25 RUB or 2.5%. The card is issued by Qivi bank. The customers have an option to top up the card using their Qivi wallet (no commission), but those who require anonymity, probably, do not need to.




















The card is very popular with video gamers, people shopping online and, of course, casual gamblers and professional bonus hunters. Latest Top 20 payments chart shows top industry poker, betting and casino brands among most popular payment destinations.

PokerStars and FullTilt dominate the gambling industry, followed by local bookmaker FonBet. In the bottom of Top 20 you'll find popular bonus hunters sites – Titan and bwin, that offer poker, casino and betting bonuses that are easy to exploit for professionals who change identities at will.

Article from <http://www.vostokreport.com>

**“Vostok Report is online gaming news and gambling intelligence agency focused on Eastern Europe markets including Russian Federation, Ukraine and Baltic States (Latvia, Lithuania, Estonia).”**

## ТОП 20 ПЛАТЕЖЕЙ

1	<a href="#">PayPal</a>	
2	<a href="#">iTunes</a>	
3	<a href="#">Google.com</a>	
4	<a href="#">PokerStars</a>	
5	<a href="#">World of Warcraft</a>	
6	<a href="#">FullTiltPoker</a>	
7	<a href="#">Steam</a>	
8	<a href="#">Skype</a>	
9	<a href="#">Букмекерская контора ФОН</a>	
10	<a href="#">Liqpay</a>	
11	<a href="#">Российские железные дороги</a>	
12	<a href="#">Avianova</a>	
13	<a href="#">League of Legends</a>	
14	<a href="#">PlayStation</a>	
15	<a href="#">PartyPoker</a>	
16	<a href="#">EA-Games</a>	
17	<a href="#">Amazon</a>	
18	<a href="#">Titan Poker</a>	
19	<a href="#">bwin</a>	
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# Russia, US in Cyber Peace Pact

from The Voice of Russia, July 18, 2011

<http://english.ruvr.ru/> and <http://smallwarsjournal.com/>

Russia and the United States have agreed to improve government-to-government communications, suppress cyberspace attacks against each other and join forces for upholding global security in cyberspace. There was a joint statement about this after Washington talks between deputy head of Russia's National Security Council Nikolai Klimashin and White House administration coordinator Howard Schmidt.

According to the New York Times article, the Russian negotiating position emphasizes an international ban on offensive cyber weapons. The Russian position also seeks to protect Russia's sovereignty regarding criminal investigations of cyber activity in its territory. For its part, the U.S. seems to seek greater international cooperation on investigating and defending against cyber crimes.

# Bitcoins are Baseball Cards

August 3rd, 2011 by Irdial <http://irdial.com>  
1DnwFLXczVZV8kLJbMYoheUrpqHesjxrSi

The responses to Bitcoin from different camps that have encountered it have been fascinating to read. Bitcoin, like the Internet, is a mirror reflecting the philosophy of the person who is talking about it.

Libertarians see it as a way out.

Statists see it as a way of receiving the blessings of the state.

and so on...

One of the many interesting sets of thoughts swirling around Bitcoin is the idea that somehow, the State must be involved in Bitcoin, and there are people out there who are keen to try and shoehorn any legislation or rule that is out there to fit the Bitcoin case.

Take a look at this:

## **FinCEN Brings KYC Requirements To Bitcoin?**

**The U.S. Department of the Treasury ("FinCEN") issued a Final Rule making non-bank providers of pre-paid financial instruments subject to comprehensive Bank Secrecy Act (BSA) regulations similar to depository institutions.**

Why this particular rule, and not the first amendment of the constitution? Cryptography, it has been argued, correctly, is a form of speech that falls under the first amendment protections guaranteeing your right to write whatever you want.

Bitcoin is made up of cryptographic signatures that can be printed out as text. This means that they are clearly protected speech and not financial instruments.

Why should FinCEN have anything to do with Bitcoin at all? If FinCEN applies to Bitcoin, should it also not apply to Baseball cards?

Baseball cards or comics or YuGiOh cards could be used as money because someone somewhere values them.

They could be stored in a vault and then certificates issues against them that could be traded automatically at online exchanges.

Does that mean that these certificates are money? Does that mean that FinCEN rules should apply to them?

Of course it doesn't. Applying FinCEN rules to Bitcoin, quite apart from the immorality of these regulations, is improper and ridiculous.

**The regulations affecting "stored value" now use the term "prepaid access" which is more broad and technology-neutral. Though FinCEN has not formally asserted that Bitcoin would fall under prepaid access regulations, earlier contact with the agency referred to bitcoins as a form of stored-value. If correct, then Bitcoin sales to U.S. customers would likely be a regulated activity per this Final Rule.**

**The new regulations become effective on September 27, 2011, 60 days after its July 29, 2011 date of publication in the Federal Register.**

This is absurd. Who made contact with FinCEN, and where is the written record of this contact? Who did the contactor represent, and whoever she was, she did not represent 'Bitcoin' or any of its users, but was acting on her own. The details of that contact are something that would be interesting to read.

**To comply with the Final Rule, providers of prepaid access must register with FinCEN. Because bitcoins are decentralized, it is uncertain who a provider would be. Might every exchanger be considered a provider, for instance?**

This is all springing from a false assumption, that Bitcoin is a store of value that FinCEN has jurisdiction over. It is not.

**Also under the Final Rule, sellers of prepaid access must collect personal information from customers, maintain transaction records, file suspicious activity reports and comply with other requirements of money service businesses (MSB). Last month FinCEN issued a ruling that was intended to clarify the definition of an MSB and includes the possibility that even businesses outside the U.S. conducting money transfer over the Internet could still be classified as U.S. MSBs. Additionally, the definition no longer requires that an MSB be a business — any individual who receives funds in exchange for a stored value might be considered an MSB.**

This is of course, absolutely absurd. Even if you concede that FinCEN has jurisdiction over U.S. companies and persons that deal in Bitcoin, to assert that people and companies outside the USA would need to register with FinCEN betrays a complete lack of understanding of the concept of jurisdiction.

Its like those very sad webmasters in the UK who put up DMCA takedown notification pages on their sites. The DMCA does not apply anywhere in the world other than in the United States of America, and no webmaster, publisher, company or person is required to obey its strictures who is not based in or who does not have servers in the USA.

If FinCEN actually tries to attack Bitcoin, and then tried to demand that entities outside the USA register with it, they should be met with this type of response.

**Though the ruling has exemptions to not impact the typical prepaid debit card found at grocery stores, for example, the exemptions would likely not apply to Bitcoin. These exemptions give a pass to providers and sellers when the following conditions are met:**

- **The funds cannot be transmitted**

**internationally**

- **Funds cannot be transferred from one user to another.**
- **No additional funds can be loaded except from a depository source (e.g., from a bank).**

**There is no way to limit where bitcoins can be spent and the value is easily transferred from one person to another so Bitcoin will not likely be considered exempt from the AML regulations.**

Bitcoin, being a form of speech, should not be regulated by anyone. In the same way that you have protections against fraud (someone misrepresenting some reproduction Baseball cards to you as genuine, or someone stealing your YuGiOh cards) you have those same protections with Bitcoin. If someone defrauds you or breaches a contract they have with you, take them to court or arbitration.

The state is not needed to control Bitcoin, police it, regulate it or have anything whatsoever to do with it. It has, like the internet, grown in popularity all by itself, will grow in utility just like the internet has by virtue of people adopting it and using it, and any interference in it is illegitimate on its face.

**Following these regulations will be a serious burden to sellers. For instance, compliance requirements as specified in an article by Perkins Coie LLP include:**

**Identifying information includes the customer's name, date of birth, address and identification number. Sellers must retain this information for five years from the date of sale.**

**The records must be easily accessible and retrievable upon request from FinCEN, law enforcement or judicial order.**

**The bigger impact of following AML may not necessarily be the cost of compliance but instead will be the likely result — to effectively de-anonymize Bitcoin.**

Following these regulations is unthinkable. Even if you accepted that these regulations were in some mysterious way beneficial, it would not and could not stop people from trading Bitcoins client to client, without identifying themselves to a parasitic third party.



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When Bitcoin usage reaches critical mass, there will be trillions of transactions happening on a daily basis. The people who serve as enter and exit points for it would be recording meaningless details that would serve no use whatsoever after the first purchase of Bitcoins.

Bitcoin is not anonymous, despite what people think. There are services out there however, that can make it completely anonymous, and these will be improved and will multiply in number as the precise nature and level of anonymity in bitcoin becomes well understood by everyone. In the same way that The Anonymizer, Hide My Ass and the many proxy services that have come into being to cater for those who want anonymity, its a safe bet that the same entrepreneurs will apply their knowledge to the problem of making Bitcoin completely untraceable.

As for the cost of compliance, only US companies will be forced to pass the expense of these ridiculous regulations on to their customers. It will mean that customers, that see high prices due to regulation as damage and route around it, will choose exchanges outside the USA, simply because it is cheaper. This

will create another tier of middle man in America; businesses that will take your money and then interface with foreign exchanges for you, rather like the Dorian Grey services we have written about.

**Ironically, these new regulations may drive even faster Bitcoin adoption. These restrictions may cause many retailers to discontinue offering the prepaid cards that can be used at ATMs internationally. Since global redemption of stored value is a service that is legal to offer, is in huge demand and is something that Bitcoin does well — using digital currency might become the more popular alternative.**

Unintended consequences!

And of course, as Bitcoin passes critical mass, it will become absolutely impossible to clamp down on the international flow of ‘money’, since Bitcoin is a peer to peer system.

When the global economy becomes dependent on Bitcoin, as it does now on SSL, no politician will dare raise a finger to control (damage) it, just as it is now



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completely unthinkable to regulate the cryptography behind SSL, as the French tried to do and which Dominique Strauss Khann put pay to.

**A more immediate consequence will likely be the employment of lawyers to specifically consider how this Final Rule affects Bitcoin.**

<http://www.bitcoinmoney.com/post/8412471372/fincen-prepaid-access-final-rule>

Maybe so. Certainly there are people out there who are desperate to interface with the State when it comes to Bitcoin.

One way or another, the State is not going to control Bitcoin. Either because it is not in their financial interest to do so because it is a world-wide phenomenon, or because they cannot possibly stop the hundreds of millions of people who are going to be using it.

There are 2,095,006,005 people on the internet. That is 30.2% of all the people on earth and an increase of 480.4% in ten years.

If only ten percent of all people use Bitcoin. No. Lets say five percent. That is 104,750,300 future users of Bitcoin. There is no reason why this number cannot not be achieved, and of course we are working only with today's assumptions; there is no knowing what new innovations related to the block chain that are around the corner. Or innovations *in the shape of client that people will be using*. Imagine new versions of Google Chrome or Firefox that are not only browsers, but Bitcoin clients.

Every browser, doubles as a Bitcoin client.

Think about that for a moment. An HTML5 Bitcoin client, with an interface designed by Google or Mozilla. Easy to use and absolutely everywhere; on every computer in the world, *by default*.

One thing is for sure, there is *no going back*.

People have complained that 'the next Google' could not come out of Britain, because Britain is toxic to business.

If Bitcoin is going to be the biggest revolution since

the internet itself, and the British establishment are desperate to entice companies to set up here and take root, then any regulation on Bitcoin (or for that matter, Internet Business which is serious business) is, to put it lightly, not a good idea. In fact, the smart thing to do would be to draw an arbitrary area on the map in London, and declare that area an Internet Free Trade Zone, where there are no restrictions, taxes or regulations, for a period of 150 years.

This would instantly attract every Internet business on the planet to the UK. There would be an unprecedented inflow of brains and money into London, making it the 'Internet Capital of the World'.

Or, you could regulate Bitcoin, and be an also-ran gaggle of losers, while Hong Kong, Dubai and other jurisdictions suck up all the brains, money, skills and entrepreneurs.

To sum up, Bitcoin is to money as PDFs are to hardback books. Bitcoins are speech, not financial instruments. The State has no business interfering in Bitcoin in any way, and US regulations and laws do not apply to people and companies outside of the continental USA.

Source: <http://irdial.com/blogdial/?p=3135>

###



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## **OPINION:**

# **Competing currencies: a defense against profligate spending**

By Rep. Ron Paul (R-Texas) - 07/11/11

The end of June marked what is hopefully the end of the Federal Reserve's policy of quantitative easing. For months the Fed has purchased hundreds of billions of dollars of Treasury debt, enabling the government to fund its profligate deficit spending, push the national debt to its limit, and further devalue the dollar. Confidence in the dollar is plummeting, confidence in the euro has been shattered by the European bond crisis, and beleaguered consumers and investors are slowly but surely awakening to the fact that government-issued currencies do not hold their value.

Currency is sound only when it is recognized and accepted as such by individuals, through the actions of the market, without coercion. Throughout history, gold and silver have been the two commodities that have most fully satisfied the requirements of sound money. This is why people around the world are flocking once again to gold and silver as a store of value to replace their rapidly depreciating paper currencies. Even central banks have come to their senses and have begun to stock up on gold once again. But in our country today, attempting to use gold and silver as money is severely punished, regardless of the fact that it is the only constitutionally-allowed legal tender! In one recent instance, entrepreneurs who attempted to create their own gold and silver currency were convicted by the federal government of "counterfeiting".

Also, consider another case of an individual who was convicted of tax evasion for paying his employees with silver and gold coins rather than fiat paper dollars. The federal government acknowledges that such coins are legal tender at their face value, as they were issued by the U.S. government. But when it comes to income taxes owed by the employees who received them, the IRS suddenly deems the coins to be worth their full market value as precious metals.

These cases highlight the fact that a government monopoly on the issuance of money is purely a method of central control over the economy. If you can be forced to accept the government's increasingly devalued dollar, there is no limit to how far the government will go to debauch the currency. Anyone who attempts to create a market based currency-- meaning a currency with real value as determined by markets-- threatens to embarrass the federal government and expose the folly of our fiat monetary system. So the government destroys competition through its usual tools of arrest, confiscation, and incarceration.

This is why I have taken steps to restore the constitutional monetary system envisioned and practiced by our Founding Fathers. I recently introduced HR 1098, the Free Competition in Currency Act. This bill eliminates three of the major obstacles to the circulation of sound money: federal legal tender laws that force acceptance of Federal Reserve Notes; "counterfeiting" laws that serve no purpose other than to ban the creation of private commodity currencies; and tax laws that penalize the use of gold and silver coins as money. During this Congress I hope to hold hearings on this bill in order to highlight the importance of returning to a sound monetary system.

Allowing market participants to choose a sound currency will ensure that individuals' needs are met, rather than the needs of the government. Restoring sound money will restrict the ability of the government to reduce the citizenry's purchasing power and burden future generations with debt. Unlike the current system which benefits the Fed and its banking cartel, all Americans are better off with a sound currency.

<http://thehill.com/blogs/congress-blog/economy-a-budget/170699-competing-currencies-a-defense-against-profligate-government-spending>

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# Some New Guidelines & Info for Digital Currency Businesses with U.S. Resident Customers

**[original title "more stuff digital currency companies are probably going to ignore"]**

Subject: Prepaid Access Programs

Date: June 28, 2011

To: Chief Executive Officers of All National Banks, Federal Branches and Agencies, Technology Service Providers, Department and Division Heads, and All Examining Personnel

Description: Risk Management Guidance and Sound Practices

## PURPOSE

This bulletin provides guidance to national banks for assessing and managing the risks associated with prepaid access programs.[1] National banks that offer consumers access to prepaid funds are exposed to a variety of risks. These risks increase when the prepaid access program has more advanced functionality, such as international funds transfers, card-to-card funds transfers, Internet transfers, and mobile phone banking. When the program or any of its components is outsourced to a third-party service provider, the risks are often more challenging to manage, especially risks related to fraud, Bank Secrecy Act/Anti-Money Laundering (BSA/AML), and Office of Foreign Assets Control (OFAC) compliance requirements. National banks should use this guidance to develop and implement a comprehensive risk management program for prepaid products that reflects the nature and complexity of their activities. This bulletin supplements and should be used in conjunction with existing OCC guidance on retail payment systems, prepaid cards and third-party service providers.[2]

## BACKGROUND

The prepaid access industry has grown rapidly in recent years, with programs and features increasingly being marketed to and used by consumers as an alternative or supplement to traditional bank accounts. Some banks are working with third-party service providers, who may own and operate the infrastructure used to deliver these products to consumers. Prepaid access products are attractive to the banking industry, particularly because they can be marketed not only to existing bank customers, but also to financially underserved consumers.

Prepaid access refers to a wide range of devices that facilitate consumers' access to money electronically, including general purpose reloadable cards, payroll cards, government benefit cards, retail gift cards, mobile phones, and Internet sites. The consumer is able to add and store funds on the device, and use it to spend or withdraw the funds from a variety of sources.

Banks can offer access to prepaid funds to a wider range of customers because there is less credit or nonpayment risk than with other means of payment. Prepaid access devices also provide customers easy, anonymous access to funds when transactions are conducted through electronic channels (for example, the Internet). However, these arrangements increase the risk of fraud and money laundering, and make it more difficult for the bank to identify illicit transactions. When prepaid access devices are obtained using compromised or stolen credentials, law enforcement must trace transactions through prepaid networks. In addition, the ability of some prepaid devices to originate or accept funds transfers from other cards, from Internet accounts or from international sources presents novel and more challenging risks.[3]

While prepaid access devices can provide a potential new customer base and revenue source for national banks,

they can also increase a national bank's operational, compliance, strategic, and reputation risk if not implemented appropriately. National banks that offer prepaid access devices should have in place a comprehensive risk management program to mitigate the risks associated with these products. Ineffective systems and controls, or improper implementation of these systems and controls, may result in unsafe and unsound practices and may contribute to deterioration in the bank's condition.

## RISK MANAGEMENT EXPECTATIONS FOR PREPAID ACCESS PROGRAMS

National banks that offer prepaid access devices to consumers should have a comprehensive risk management program to identify, measure, monitor and control the risks related to these products. Components of a comprehensive risk management program include:

clearly defined objectives, expectations, and risk limits for the products offered;

- policies and procedures to govern the prepaid access program, including a due diligence process for selecting third-party service providers and an oversight process for monitoring performance, fraud losses, and suspicious activity;
- policies and procedures to ensure all disclosures to consumers about pricing, fees, transaction limits, and other program requirements and restrictions[4] are clearly outlined;
- robust audit and compliance functions to ensure ongoing compliance with internal policies and all applicable laws and regulations; and
- parameters for reporting to the bank's board of directors, to enable the board to periodically evaluate

[dgcmagazine@mises.com](mailto:dgcmagazine@mises.com)

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management's effectiveness in executing the prepaid program and to determine if the program is achieving stated objectives.

## Objectives and Risk Parameters

An effective prepaid program begins with a thorough assessment of how the product fits within the bank's overall business strategy and risk appetite. The board of directors should ensure it understands how the program is expected to operate, the level and nature of risks it will bring to the bank, and its projected costs and revenues. In consultation with bank management, the board should establish risk limits for the program and outline expectations for compliance and performance reporting.

In setting risk limits and other program guidelines, the board of directors or its designee should:

consult with relevant functional areas within the bank to gather data sufficient to understand the program's requirements, such as the need for expertise, staffing, and infrastructure, and the costs associated with these requirements. Relevant functional areas would include, for example, operations, information technology, audit, compliance and legal.

- identify specific program objectives, such as expected growth rates and size of the program in relation to the bank's total assets or capital.
- outline performance criteria, such as qualitative and quantitative benchmarks to evaluate success of the product; variance analyses (actual results versus projections) to detect and address adverse trends in a timely manner; and specific thresholds that, if met, would result in management taking action to change or discontinue the program.
- require periodic review of the program by the board of directors to determine whether changes in product capabilities, regulatory requirements, competitive factors, or other aspects of the business model result in changes to the bank's risk/reward analysis for the program.

## Policies, Procedures, and Due Diligence

A prepaid program should be governed by written policies and procedures that are well understood and accessible by those who implement the program as well as those who evaluate its effectiveness. Roles and responsibilities of affected personnel should be clearly defined. Procedures should include an exit strategy in the event the product fails to perform as expected.

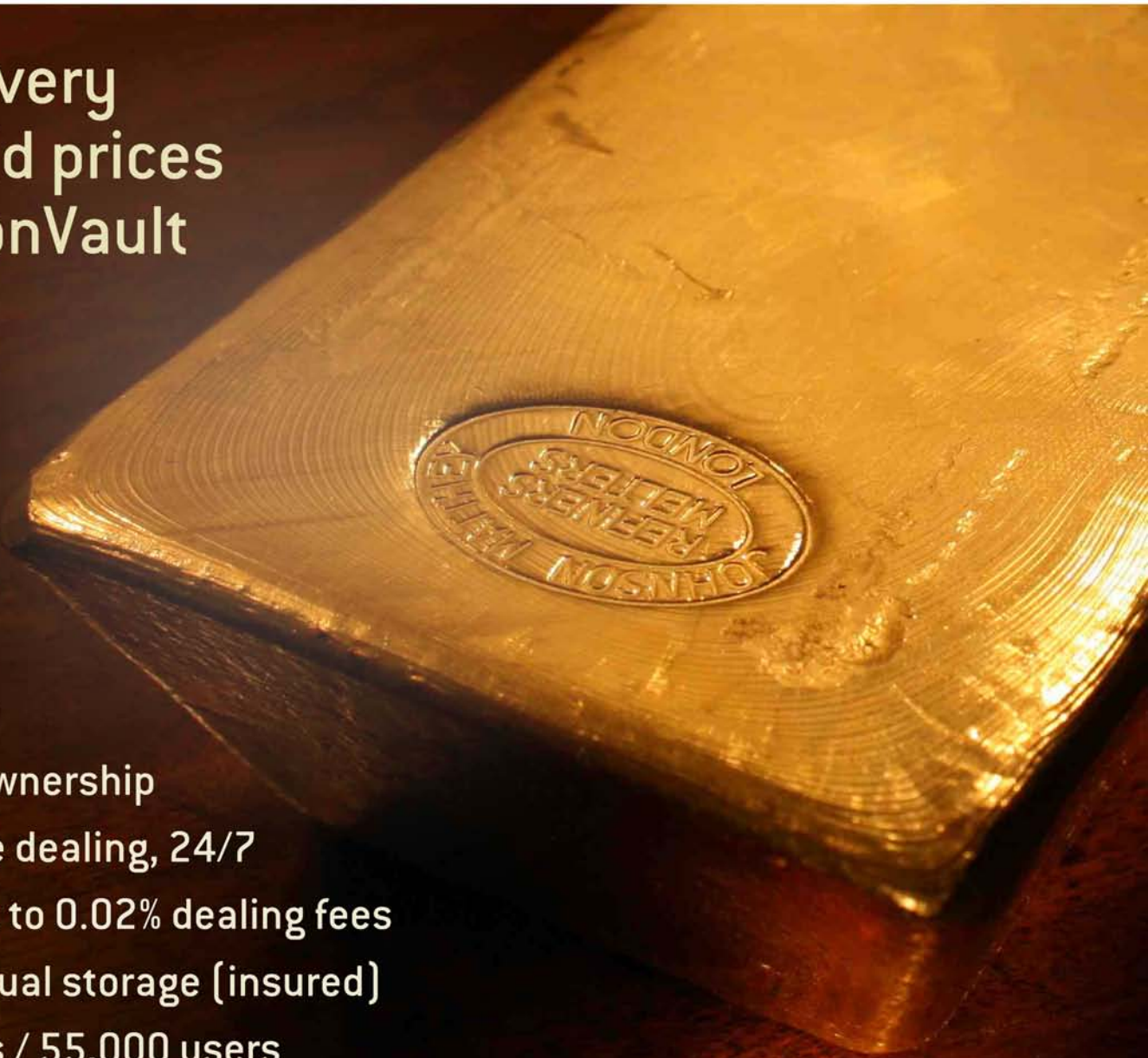
If the program includes a third-party service provider, policies and procedures should guide the bank's evaluation, selection, and oversight of the third party's activities. National banks should perform a due diligence review of potential third-party service providers. Such a review would include a thorough background check of the third-party provider and its significant principals, evaluation of the company's financial condition, assessment of operational and risk management processes, its history of regulatory compliance and prior banking relationships, and results of information security and business continuity testing.

Once the third-party service provider is selected, the arrangement with the third-party service provider should be governed by a well-constructed, enforceable service contract that clearly defines expectations, duties, rights, and obligations of each party. A binding contract or agreement should include, at a minimum,

the scope of the relationship and explicit details about all services to be performed by the service provider, including training of employees and customer service.

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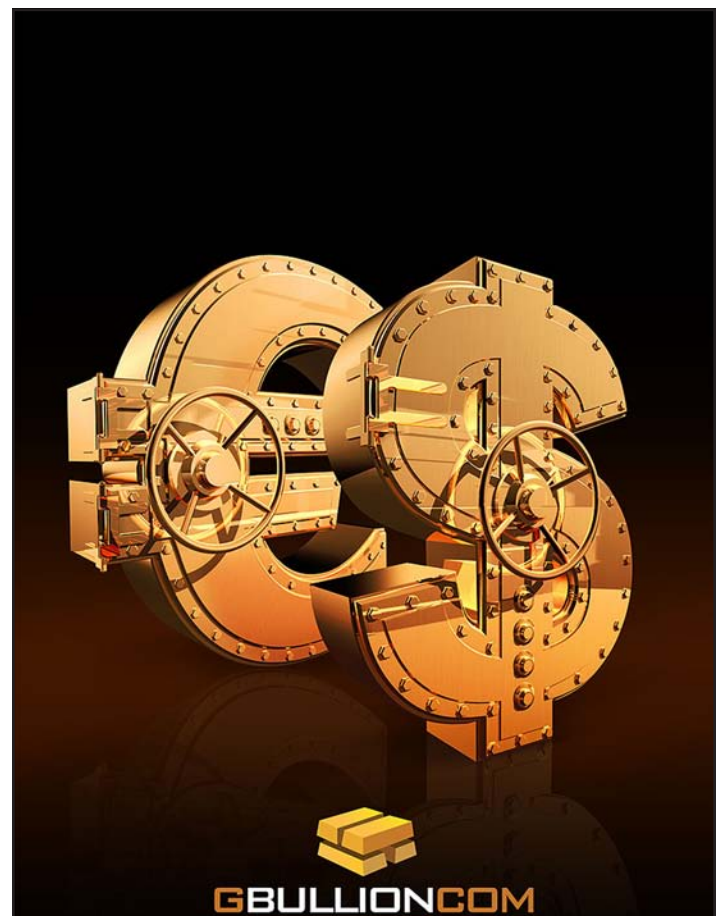
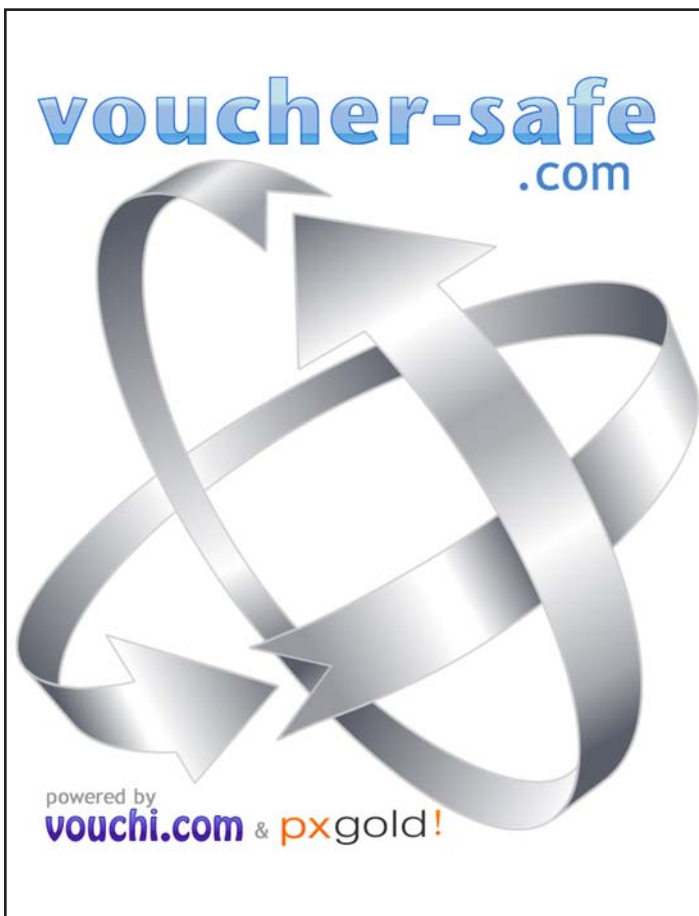
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- a complete description of the costs and fees for services, the parties responsible for payment, and any conditions under which the cost structure may be changed or the relationship may be terminated without penalties.
- responsibilities for providing and receiving information, including the frequency and types of reports, consumer complaints, materiality thresholds, and procedures in the event of service disruption or security breaches that pose a material risk to the bank.
- plans for business resumptions, continuity, and contingencies in the event of problems affecting the third-party provider's operations. These plans should outline each party's responsibilities, provide for testing of plans and the frequency of testing, and state the bank's right to obtain the results of such tests.
- a clause that outlines the BSA/AML and OFAC obligations of the parties, including monitoring and reporting suspicious activity.[5]
- a clause that provides for the national bank's right to audit the third-party provider to monitor its performance. Generally, banks need to ensure that periodic independent internal and/or external audits are conducted to ensure prudent operations and compliance with applicable laws and regulations.
- a clause outlining the OCC's authority to examine the third-party service provider under the Bank Service Company Act, and assess the provider's ability to perform under its contractual obligations.
- a clause that defines (1) how the parties will share information about fraud losses and suspicious activity and (2) the process for sharing and/or indemnifying losses.
- a clause outlining the authority of the national bank to terminate the relationship.

#### Audit and Compliance Functions

Before launching a prepaid program, a bank should review its audit and compliance functions to ensure they are sufficient to cover the risks posed by the new program. Facilitating access to prepaid funds has the potential to introduce new risks that require specific expertise, staffing levels, and audit/compliance testing to monitor



for deficiencies and identify corrective action. For example, consumer protection and BSA/AML requirements can be very challenging to manage without the appropriate infrastructure. For some components outsourced to a third party, ensuring compliance may require a different approach and additional expertise beyond current bank staff knowledge.

When expanding audit and compliance functions to accommodate prepaid programs, national banks should:

- ensure the audit and compliance functions provide for sufficient consumer protection transaction testing. Testing should ensure all fees are clearly disclosed, and a sample of accounts should be tested to verify that fees are assessed as disclosed. Such programs should also provide for testing of BSA/AML and OFAC compliance. This testing should include samples from both in-house and outsourced components, and should broadly cover the number of alerts generated and suspicious activity report filings. Banks may use existing fraud, Gramm-Leach-Bliley Act (GLBA), and OFAC monitoring programs[6] to ensure appropriate coverage.
- include procedures to evaluate any proposed changes or additions to the product prior to implementation, to ensure that all risks are considered.

#### Parameters for Reporting to the Board of Directors

The board of directors should receive periodic reports from bank management that allow the board to determine whether the prepaid access program is operating within established risk limits, and is achieving stated objectives and financial results. Such reports may include:

- performance benchmarks, such as Service Level Agreements and Key Performance Indicators, and the program's performance against those measures. These benchmarks should include trends as well as point-in-time performance.
- comparison of the program's activity against board-established risk tolerances.
- variance reports.
- summaries of suspicious activity monitoring and reporting.
- fraud loss reports, including volume and type of fraud (such as account takeover and identity theft).
- results of audits and regulatory compliance reviews.
- a summary of service disruptions or security breaches that occurred since the last report.

#### CONCLUSION

The OCC supports national banks' participation in prepaid access programs to meet consumer needs and diversify sources of revenue. To limit potential risks to banks and consumers, however, national banks should implement comprehensive risk management programs that provide appropriate oversight and controls commensurate with the risk, complexity of the activities, and use of any third-party providers to facilitate the prepaid programs.

#### RELATED ISSUANCES

- FFIEC Information Technology Examination Handbook," Retail Payment Systems Booklet," February 2010; and "Outsourcing Technology Services Booklet," June 2004.
- FFIEC BSA/AML Examination Manual, Electronic Banking, Electronic Cash, and Third-Party Payment Processors, April 2010.
- OCC Bulletin 2008-12, "Payment Processors: Risk Management Guidance," April 24, 2008.
- OCC Bulletin 2006-34, "Gift Card Disclosures," August 24, 2006.
- OCC Bulletin 2005-15, "Bank Secrecy Act/Anti-Money Laundering," April 25, 2005.

- OCC Bulletin 2004-20, “Risk Management of New, Expanded, or Modified Bank Products and Services: Risk Management Process,” May 10, 2004.
- OCC Advisory Letter 2004-6, “Payroll Card Systems,” May 6, 2004.
- OCC Advisory Letter 2002-3, “Guidance on Unfair or Deceptive Acts or Practices,” March 22, 2002.
- OCC Bulletin 2001-47, “Third Party Relationships: Risk Management Principles,” November 1, 2001.
- OCC Bulletin 96-48, “Stored Value Card Systems,” September 10, 1996.

## FURTHER INFORMATION

Please direct any questions or comments regarding this guidance to Operational Risk Policy at (202) 874-5350.

*Carolyn G. DuChene*  
*Deputy Comptroller for Operational Risk*

[1] A prepaid access program is an arrangement through which one or more persons acting together provide access to funds or the value of funds that have been paid in advance and can be retrieved or transferred at some point in the future through an electronic device or vehicle, such as a card, code, electronic serial number, mobile identification number, or personal identification number. This bulletin addresses guidance and sound practices relevant to any other electronic devices or vehicles that are in use, or that may be developed in the future. The terms banks and national banks refer to national banks and all other institutions for which the Office of the Comptroller of the Currency is the primary supervisor. Beginning July 21, 2011, this guidance will also apply to federal savings associations.

[2] Related guidance is listed at the end of this bulletin.

[3] Devices that receive funds transfers can be used by online hackers in account takeover fraud schemes that could result in loss to the bank.

[4] Devices that receive Federal payments are subject to specific consumer protection guidelines established by the Financial Management Service of the U.S. Department of the Treasury. (See 31 CFR 210.5(b)(5)(i); 75 FR 80335). National banks are encouraged to follow, as a model, these guidelines when establishing program criteria for their prepaid access programs.

[5] Financial Crimes Enforcement Network issued in the Federal Register a proposed rule on prepaid programs

(75 FR 36589) that would impose BSA/AML compliance obligations on non-bank entities that are determined to be “providers of prepaid access.” This proposal and the anticipated final rule are significant regulatory developments in the prepaid industry.

[6] Banks already have in place programs to respond to unauthorized access to customer information and identity theft prevention developed pursuant to section 501(b) of the GLBA and section 114 of the Fair and Accurate Credit Transactions Act of 2003. Banks may be able to use these existing programs when developing risk management systems for prepaid card programs. See 12 CFR 30, appendix B; 12 CFR 41.90 et seq.