

**Statement  
of  
Mr. Michael B. Clark, President  
Diamond State Depository**

**Before the**

**U.S. House of Representatives  
Committee on Financial Services  
Subcommittee on Domestic Monetary Policy and Technology**

**The State of U.S. Coins and Currency  
July 20, 2010**

Chairman Watt, Ranking Member Paul and Members of the Subcommittee, my name is Michael Clark. I appear before you this afternoon as President of the Diamond State Depository, located in Wilmington, Delaware, a subsidiary of the Dallas-based Dillon Gage Group, Inc. Dillon Gage is one of 12 current Authorized Purchasers of American Eagle Silver Bullion Coins from the United States Mint. I have over 30 years experience in the precious metals and tangible assets industries, working for industry leaders such as Deak Perera, Wilmington Trust Corporation (NYSE: WL), and now Dillon Gage. I am a past Chairman, and remain a Director, of the Industry Council for Tangible Assets (ICTA), Inc., the national industry association for the rare coin, precious metals and tangible assets industry, which is headquartered in Severna Park, Maryland.

It is a pleasure to speak with you today on the state of U.S. Coins and Currency. My purpose in appearing today is to address three issues, all related to coinage:

1. The market impacts of the U.S. Mint's continued difficulties in keeping pace with market demand for its American Eagle Gold and Silver Bullion coinage programs;
2. The desire among collectors and investors alike for an American Eagle Palladium Bullion coin; and
3. The growing presence of counterfeit coins in the marketplace.

**Impact of Planchet Shortages on American Eagle Gold and Silver Bullion Coin Markets**

When Congress authorized the minting of gold and silver bullion coins in 1986<sup>1</sup> with the Gold Bullion Act of 1985, it created a widely successful program for investors and hobbyists interested in the advantages that precious metals can offer in diversifying and

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<sup>1</sup> The Congressionally authorized American Eagle Bullion Coins were launched in 1986, following a 1985 Executive Order by President Ronald Reagan banning the further importation of South African-produced Krugerrand gold bullions coins to signal disapproval of apartheid.

stabilizing an investment portfolio. Today, the American Eagle Bullion Coin series (gold, silver, platinum) is the dominant provider of bullion coin investment products to the global market. This coinage program has provided investors with a convenient manner in which to invest in silver, gold and platinum bullion. Of course, the coins also are prized by collectors for their beauty.

Strong investment demand, coupled with a wounded global economy, has paved the way for a five-year-plus bull market in precious metals investments. The introduction in 2004 of exchange-traded funds backed by physical precious metals<sup>2</sup>, coupled with the global economic crisis that began in 2007, has caused demand for precious metals to skyrocket. Gold has risen by 160% since 2005, while silver has shot up 141%, platinum rose 77%, and palladium 131% during the same period.

In the past three years, the U.S. Mint has sold unprecedented volumes of American Gold and Silver Bullion Coins. For example, demand for the U.S. American Eagle Silver Bullion Coin reached record highs in 2009, with over 30 million sold. To put 2009's performance into context, over the 1986-2008 period, U.S. Silver Eagle minting averaged 7.7 million coins per year. Looking at the gold product, last year the Mint produced 1.3 million one-ounce Gold American Eagle coins, up from nearly 800,000 in 2008. In the first six months of 2010, demand for these products is on pace to equal last year's demand.

Demand for these products has been so robust in recent years that the Mint has at times suspended production of both its fractional Gold Eagle Coins and its 24-carat Buffalo Gold Bullion Coin (the Gold Eagle is produced in 22 carat). Further, beginning in late 2008, production of American Eagle Gold and Silver Proof and Uncirculated Coins has been suspended because of exceptionally strong demand for these coins. The Mint has allocated all available gold and silver bullion blanks to the American Eagle Gold and Silver Bullion Coin Programs because the U.S. Mint is required by Public Laws 99-61 (Silver) and 99-185 (Gold) to produce these coins "in quantities sufficient to meet public demand . . . ." Proof and uncirculated coins are prized by collectors, who pay a premium for these coins.

The Mint's inability to keep pace with demand has had a negative and unnecessary impact on the investment and hobby community. At the heart of the problem is the Mint's inability to source sufficient planchets (or blanks) from multiple producers. Its reliance on just three suppliers is flawed. Moreover, there is some irony in the fact that while Congress requires the Mint to procure the gold for its Eagle bullion coins from newly mined U.S. deposits, the Mint then ships that gold to Australia to be made into blanks. Then, the fabricated blanks are later shipped back to the United States for the production of the coins. The inefficiency of this system is obvious, and it seems that we

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<sup>2</sup> Since November 2004, the Securities and Exchange Commission (SEC) has permitted the registration of securities representing equity interests in trusts holding precious metal bullion, including the first-to-market SPDR Gold Shares, for listing on registered stock exchanges. Today, over 40 billion dollars is invested in just two funds, iShares Silver Trust ETF (NYSE: SLV) and SPDR Gold Trust (NYSE: GLD).

should be able to create jobs at home by sourcing these blanks in the United States and eliminate the costs of inter-continental shipping.

Robust demand aside, there is a level of frustration among investors and collectors alike as gold and silver bullion coin production shortages continue and, in some cases, coin production stoppages occur. There is also frustration amongst the Mint's main market makers, its Authorized Purchasers. On many occasions, the Mint has had to ration coins amongst its Authorized Purchasers. These frustrations are being leveled almost entirely at the doorstep of the U.S. Mint since the Mint has not yet addressed the manufacturing issues surrounding the production of blanks needed to manufacture the coins. This production crisis first arose in 2008 and while the Mint has made public proclamations promising to address this issue, no significant action has taken place.

We wish to recommend that Congress take the following actions:

1. Authorize the Mint to produce both proof and uncirculated versions of the Gold and Silver Eagle Coins, regardless of the demand requirements of the bullion coins, to ensure uninterrupted supply to the market;
2. Direct the General Accountability Office to undertake a review of the Mint's procurement process for blanks, and seek its recommendations on what can be done to improve it; and
3. Require that the Mint procure the blanks for its bullion programs from sources within the United States by no later than 2014.

#### Palladium American Eagle Bullion Coin

Our industry believes that Congress should broaden the offerings of the American Eagle Bullion Coin Program by authorizing the Mint to produce a palladium bullion investment coin.<sup>3</sup> While principally an industrial metal, much like silver and platinum, palladium is also favored by investors. According to GFMS, Ltd, a leading precious metals research firm, there is a history of palladium investing that has been largely concentrated in the United States and Japan.<sup>4</sup> An American Eagle Palladium Coin would fill an important market void. Canada already produces palladium investment coins.

Palladium is a precious metal similar to platinum in composition and appearance but currently about one-third of its cost per troy ounce. Palladium is mined in only a few nations, and the United States is the fifth largest producer of this rare, white metal.<sup>5</sup>

Mined in Montana, palladium is used for numerous applications including use as an industrial catalyst; for the composition of automotive catalytic converters, dentistry, and jewelry; as well as in the production of surgical instruments and electrical contacts.

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<sup>3</sup> In 1996, Congress authorized the Mint to produce Platinum Bullion coins.

<sup>4</sup> GFMS Limited, *Platinum and Palladium Survey 2009*.

<sup>5</sup> Ibid.

The value of palladium is driven not only by its practical use, but also by its role as a store of value. Investment options include coins, bars, and exchange-traded funds. As the price of commodities has risen, investing in gold and platinum bullion coins is increasingly cost-prohibitive for many investors.

A one-troy ounce palladium coin would offer the precious metals investor an interesting price point for market entry. While gold presently trades around the \$1,200 level, and platinum over \$1,500, palladium is trading in the spot market in the range of \$460 – \$475.

Further, the introduction of a palladium coin may absorb some of the demand for the Silver Eagle, and reduce some of the Mint's production burden for that coin. There are ample reports in the marketplace that many investors are opting for silver bullion coins rather than the highly priced gold and platinum bullion coins the Mint also offers.

Lastly, a palladium bullion coin would create or maintain U.S. mining and refining jobs – in addition to mining jobs in Montana; palladium is refined in New Jersey, California and South Carolina.

#### Counterfeit Rare U.S. Collector Legal Tender Coinage

A growing problem in the marketplace today is counterfeit rare U.S. legal tender collector (numismatic) coins – generally the older coins whose value derives from their rarity and desirability for collectors, such as Morgan and Peace Silver Dollars.

Increasingly these coins are being counterfeited outside the U.S. and sold principally on online auctions. This poses a significant financial threat to American consumers. Last October, five of the country's most influential rare coin organizations issued an advisory to warn the public of the danger and the need for consumers to educate themselves.<sup>6</sup>

These counterfeit coins, the majority of which are believed to originate in the People's Republic of China, are often of extremely high quality. Hobby periodicals have reported that more than one million counterfeit coins manufactured in China have been sold in the United States. Unchecked, these counterfeits will cause significant financial harm to the American public.

Many of these "coins" are produced as replicas of authentic legal tender coins and are sold online. The U.S. Hobby Protection Act, (Public Law 93-167 15 US Code §2101 et seq) requires manufacturers and importers of imitation numismatic items to mark them plainly and permanently with the word, "COPY". While thousands of coins described as "copy" or "replica" are listed for sale in online auctions every day, there also are numerous reports of replica coins being exported from China without the word, "COPY," incused in the surface as the law requires. One respected industry weekly reported last year that 99% of the "replica" items sold into the U.S. market do not contain the required

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<sup>6</sup> October 12, 2009 joint press release issued by American Numismatic Association, Industry Council for Tangible Assets, Numismatic Guaranty Corporation, Professional Coin Grading Service, and Professional Numismatics Guild. See: [http://www.pngdealers.com/item.php?item\\_id=120&category\\_id=2](http://www.pngdealers.com/item.php?item_id=120&category_id=2)

“COPY” markings. One counterfeiter in China told the publication he already has produced and sold more than one million coins.<sup>7</sup> Unfortunately, many of these counterfeit items are resold in the market place to unwitting consumers, in online auctions and at flea markets and other venues, as authentic rare legal tender U.S. coins.

While federal law addresses the matter of counterfeiting legal tender coinage, enforcement seems to be lacking, in part because these counterfeiters tend to be based in China, and are for all intents and purposes beyond the reach of U.S. law enforcement agencies. The industry organizations cited above have sought help from the Federal Trade Commission, U.S. Secret Service, U.S. Postal Service, and Immigration & Customs Enforcement with no apparent success. Because these counterfeits are arriving on U.S. shores principally via small, individual purchases, these government agencies are either unable or unwilling to investigate this fraud, which is endangering our country’s numismatic legacy and resulting in significant loss to consumers.

Moreover, our industry has also consulted with eBay regarding policing its sellers, but eBay’s stance is that its policies are being followed because the seller clearly state on their auction site that their coins are copies; and the photographs of these coins advertised for sale are clearly marked “COPY.” But, as noted above, the vast majority of consumers are being delivered items devoid of the mandated “COPY” marking.

The primary relevant criminal statute is 18 U.S.C. §485, which prohibits manufacture of “any coin ... in resemblance or similitude of any coin of a denomination higher than 5 cents” and passing or importation into the U.S. “any false, forged, or counterfeit coin or bar, knowing the same to be false, forged, or counterfeit, with intent to defraud ... or attempts the commission of any offense described in this paragraph.” Even possession of counterfeits of U.S. coins, or “any token, disk, or device in the likeness or similitude as to design, color, or the inscription thereon of any of the coins of the United States or of any foreign country issued as money”, with the intent to sell is a crime punishable by fine (18 U.S.C. §489).

Further, the online sale of counterfeit coins, whether they are described as genuine or as “replicas” but nonconforming with the Hobby Protection Act, is fraudulent and, because it is in interstate or foreign commerce, violates the federal mail and wire fraud statutes. The mail fraud statute, 15 U.S.C. §1341, prohibits “any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises, or to sell ... or furnish or procure for unlawful use any counterfeit or spurious coin, obligation, security, or other article”, if in executing such a scheme anything is placed in the U.S. Postal Service or any private or commercial interstate carrier.

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<sup>7</sup> Susan Headley, “Chinese Counterfeits Deceptive,” *Coin World*  
<http://www.coinworld.com/articles/chinesecounterfeit/part1.aspx>

Our industry believes that Congress needs to take swift action to protect consumers from the increasing, and systematic counterfeiting and subsequent marketing of these counterfeit numismatic, rare and investment-grade legal tender United States coins. As a first step, we ask that Congress direct the Treasury Department's Inspector General to conduct a thorough investigation of the sources and extent of such counterfeiting and report back to Congress on the results of that investigation.

Specifically, we believe that the report should cover such topics as where the counterfeiting takes place; whether such counterfeiting is either sponsored by, or condoned by, a government, or enabled by specific laws or lack thereof; the marketing channels used domestically and overseas; the effect of any such counterfeiting on hobbyists, numismatists and on the investment opportunities for bullion or numismatic coins produced by the United States Mint; whether and to what extent such counterfeiting extends to the counterfeiting of third-party coin grading protective materials in such a way that might imply that the counterfeit inside had been examined and authenticated by a reputable third-party coin-grading firm; an estimate of the annual value of such fraudulent acts domestically and worldwide; the trends in value and the effects such fraud has on markets in general; and any recommendations the Inspector General may determine to be appropriate to curtail or forestall any such counterfeiting.

Thank you for the opportunity to address the Subcommittee. I would be pleased to answer any questions you may have about these matters.