

**Statement of  
Scott Carter  
Executive Vice President  
Goldline International, Inc.**

**Before the  
House Committee on Energy and Commerce  
Subcommittee on Commerce, Trade, and Consumer Protection**

**Regarding H.R. 6149  
The “Coin and Precious Metal Disclosure Act”**

**September 23, 2010**



## **I. Introduction**

Mr. Chairman and members of the Committee, I am Scott Carter, Executive Vice President of Goldline International. I am pleased to have this opportunity to provide information concerning the proposed legislation as well as Goldline's role as an industry leader in the precious metals and rare coin markets.

As I will discuss in detail below, Goldline has long supported the comprehensive disclosure of information necessary for an individual to make an informed decision about acquiring precious metals and rare coins. Indeed, Goldline believes its disclosures represent best practices in an industry of more than five thousand precious metals and rare coin dealers. These disclosures include clear examples and explanations of the risks and costs associated with acquiring precious metals, information which we provide throughout the sales process.

Because the precious metals industry is highly competitive, there are numerous sources available to help individuals compare prices and policies among a number of dealers both locally and throughout the United States. With many dealers offering products online, consumers have access to multiple vendors who aggressively compete for their business.

We also believe that the existing federal regulation, coupled with the intense competition in our industry, offers the protection that individuals require when choosing if and where they acquire precious metals. As I explain below, the proposed legislation does not improve the information currently required under existing regulation and imposes requirements that cannot be met by the industry. As such, the proposed legislation appears unworkable and may actually result in inaccurate information being conveyed to the consumer.

## **II. The Precious Metals Markets**

Goldline specializes in selling physical precious metals in coin or bar form which can be delivered to the customer or, where the customer chooses and State law allows, stored with an independent storage facility. Although there has been no systematic survey, we have been advised there are likely more than five thousand coin and precious metals dealers throughout the United States who sell many of the products offered by Goldline. Since there are few barriers to entry into the physical precious metals market, we have seen a significant increase in new businesses and competition as gold prices have increased and new records reached.

In addition to acquiring physical precious metals, investors may choose to invest in precious metals through other means. These include Exchange Traded Funds, or ETFs, futures and mining stocks.

While Goldline believes it is among the largest retail sellers of physical gold in the United States given the number of its employees, based upon information provided by a precious metals consultancy, our annual sales represent less than 2% of the total gold market.

### **III. Goldline's History, Employees and Growth**

Goldline has been offering precious metals to individuals since 1960 when it began as Deak Investor Services. In 1998, Goldline acquired Dreyfus Precious Metals, Inc., the precious metal brokerage and storage subsidiary of the Dreyfus Corporation.

When Goldline relocated to California in 1992, we expanded our products to include rare and collectible coins and currency. In all, Goldline has offered more than one thousand four hundred (1400) different precious metals and rare coin products.

Goldline has grown from three employees to more than 300 full time employees. We offer a healthy work environment for our employees which includes health, dental and life insurance, a 401(k) plan, support for alternative commuting choices and Health Savings Accounts.

Over the years, Goldline has assisted thousands of people in acquiring and liquidating precious metals and rare coins. In that time, due to several factors including our repeat business and excellent customer relations, we have become the top 20% fastest growing private companies in the United States as ranked by Inc. magazine. We are proud to be rated A+ from the Better Business Bureau.

### **IV. Goldline's Commitment to Consumer Education, Disclosure and Compliance**

Goldline is committed to providing the important information that clients need when making purchasing decisions. Thus, Goldline offers among the most comprehensive and clearly written disclosures in the precious metals industry. These disclosures include detailed information regarding Goldline's sales staff, the risks of investing in precious metals, and Goldline's pricing policies.

Goldline's disclosures begin with its corporate brochure which states:

Goldline provides each client with a risk disclosure booklet, *Coin Facts for Investors and Collectors to Consider*, which is located in the attached pocket. This risk disclosure contains important information for each client to consider before making his or her first acquisition. You can review this booklet online at [www.Goldline.com](http://www.Goldline.com). Additional copies are available by calling 1-800-827-4653.

*Coin Facts* is written in a large, easy to read font and contains important information regarding the acquisition of precious metals. Indeed, we believe our 13 point font size for *Coin Facts* is larger than disclosures found in almost every comparable industry.

In *Coin Facts*, Goldline explains its pricing policies in extensive detail and provides a mathematical example to ensure its clients understand how this pricing works.

*Coin Facts* states:

**OUR PRICES:** Our prices are set internally based upon our analysis of a variety of factors and are not necessarily tied to the prices quoted by any other organization. The prices charged by Goldline for coins are subject to change based on market conditions. Our total profit before operating expenses may be more or less than our spread based on various factors including, but not limited to: quantity purchasing, favorable or unfavorable purchases, and positive and negative market conditions. Goldline acts as a principal, not as a broker, and generally owns the coins and precious metals it buys and sells.

There is a price differential or “spread” between our selling price (the “ask” price) and our buy-back price (the “bid” price). This is often referred to as a “transaction cost.”

A typical spread on our most common bullion coins (e.g. Canadian Maple Leaf or South African Kruggerand gold coins) may range from approximately 5% to 20% depending on the coin though spreads may increase based upon market conditions, availability and demand. Our spread on semi-numismatic coins, rare or numismatic coins and rare currency currently ranges from 30% to 35%. Examples of coins which have a 30% to 35% spread include European gold coins such as the Swiss 20 Franc, the PCGS certified “First Strike®” coins, coins which have been encapsulated by a grading service such as PCGS or NGC, the Morgan and Peace silver dollars in all grades, and the Walking Liberty, Franklin and Kennedy silver half-dollars in all grades. Spreads may change based upon market conditions, availability and demand.

With the exception of the most common 1 oz. bullion coins, Goldline charges clients its numismatic spread, which currently ranges from 30% to 35%, on coins and currency. To earn a profit upon resale to us, your coins, currency or bullion must appreciate sufficiently to overcome this price differential.

To illustrate how this spread works, consider the following example. If the spread on a coin is 35% and Goldline's ask/sell price is \$500 for the coin, then Goldline's bid/buy price is \$325. Your coin must appreciate more than \$175 to earn a profit. If you choose to sell your coin back to Goldline, you must also pay a 1% liquidation fee (the minimum liquidation fee is \$15)...<sup>1</sup>

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<sup>1</sup> Goldline provides a FAQ on its website which also discusses its spread and pricing:

12. What is the cost of my precious metals? How do you make your money?

Goldline has a spread or price difference between our selling price, called the “ask,” and our buy-back price, called the “bid.” That spread varies depending on the type of coin you acquire, with the most common bullion coins like the American Eagle or Canadian Maple Leaf having the lowest spreads and all other coins having higher spreads. Spreads on bullion coins are generally 5-20% and 30-35% for all other coins. There is also a 1% liquidation fee when you sell your coins back to Goldline. You should read our risk disclosure booklet, [Coin Facts for Investors and Collectors to Consider](#), and our [Account and Storage Agreement](#), which describe the various spreads and will tell you how the spread works.

Goldline also provides important information about its sales staff and commission structure:

**ACCOUNT EXECUTIVES:** The Account Executives at Goldline are generally commissioned salespersons. Their commissions are usually greatest on rare coins and semi-numismatic coins and least on bullion related products. Their work experience, knowledge, background, and training vary widely. They and/or Goldline may receive, from time to time, undisclosed compensation for recommending specific coin or currency products (including but not limited to contests, cooperative advertising, and trading profits in coins that they may own and/or sell). Goldline's employees are not licensed as investment advisors and are not authorized to recommend the purchase or sale of any product or investment other than the products specifically sold by Goldline. Check with a licensed professional with expertise in a particular market before making a decision to buy or sell any security, bond, annuity or financial instrument. Further, Account Executives are not tax advisors and may not provide any advice regarding taxability, tax rates or related issues for any product Goldline sells. You should consult with your tax advisor regarding any questions about the tax implications of buying or selling bullion, rare coins or rare currency.

In the past ten years, spot gold prices have increased every year. Nonetheless, precious metals, like any investment, can rise and fall in value. Accordingly, *Coin Facts* clearly spells out the risks of investing in precious metals for the potential client.

**RISK:** All investments involve risk - coins, currency and bullion are no exception. The precious metals, rare coin and rare currency markets are speculative, unregulated and volatile and prices for these items may rise or fall over time. Goldline does not guarantee that any client buying for investment purposes will be able to sell for a profit in the future.

The value of a bullion coin (e.g., Canadian Maple Leaf or South African Krugerrand gold coins) is largely determined by the current spot or market price of bullion. This price fluctuates throughout the trading day.

The value of a numismatic or rare coin is determined by multiple factors which can and do fluctuate independently from bullion prices. These factors include: the perceived scarcity of the coin, its quality, current demand, market sentiment, and economic factors.

Bullion, rare coins and rare currency can go down as well as up in value. These items may not be suitable for everyone. Goldline does not determine the suitability of any specific person to purchase rare coins, bullion or rare currency. You should consult with your independent financial advisor regarding whether an investment in rare coins, bullion or rare currency is right for you. You should not acquire any products from Goldline if you are not competent or qualified to make your own financial decisions. You should obtain a thorough understanding of the coin and bullion products before you acquire these products as a collector or investor.

The investment value of a rare coin depends in large part on the price you pay. If you are acquiring any of Goldline's products as an investment, you should evaluate its current market value, potential for appreciation and liquidity and consult independent sources regarding these factors.

Since rare coins, bullion and rare currency can decline in value, you should have adequate cash reserves and disposable income before considering acquiring a coin, currency or precious metals.

We do not recommend early withdrawal from accounts or securities which may result in substantial penalties or fees. You should consult with your independent financial advisor before disposing of any security, annuity, Certificate of Deposit or other investment to acquire rare coins, currency or bullion.

*Coin Facts* encourages prospective clients to conduct their due diligence before they acquire any product. At the very outset, *Coin Facts* provides:

*Conduct your due diligence before you acquire rare coins, bullion and rare currency from any firm.*

(Original emphasis.)

Goldline reiterates this admonishment in its Summary:

**SUMMARY:** We strongly recommend that you acquire a sound understanding of precious metals, coins, and their markets before you make your first purchase. Be prepared to invest some time and effort into understanding the market and the grading of your coins or currency. Do not commit more than 5% to 20% of your investment funds to rare coins or precious metals. Protect your future with a diversified portfolio that meets your objectives for safety, liquidity, and growth. Be prepared to hold your coin, bullion and currency investments for a minimum of 3 to 5 years, recognizing that all markets have their ups and downs. Perform your due diligence and let reason and common sense be your guide.

(Original emphasis.)

Goldline repeats much of the information from *Coin Facts* in the Account and Storage Agreement which every client must read and sign to finalize his or her purchase. For example, the Account and Storage Agreement states:

**Considerations for Investors...**6. Goldline employees may from time to time discuss the general direction of various financial markets. Neither Goldline nor its representatives can guarantee any market movement. Further, Goldline employees are not licensed as investment advisors and they are not making any specific recommendations concerning stocks or any other form of investment. Goldline and its Account Executives are not agents for Client, have different financial interests and incentives from Client and owe no

fiduciary duty to Client. Account Executives are generally commissioned salespeople whose commissions are greatest on numismatic and semi-numismatic items and least on bullion related products. They may receive cash and other undisclosed compensation from Goldline for recommending specific coin or currency products. Client will check with a licensed professional with expertise in a particular market before making a decision to buy or sell.

Goldline clients have their purchases of \$1,000 or more confirmed by a client service representative who reviews the products being purchased, the unit price and the total price. The client service representative also reiterates that the purchase is subject to Goldline's Account and Storage Agreement.

Every client receives a written confirmation which identifies the products purchased, the unit price, and the total cost of the transaction. The written confirmation also reiterates Goldline's risk disclosure information. Every order is then checked at least twice before shipping to ensure accuracy.

The entire sales process, beginning with an individual's initial inquiry to Goldline and culminating with expiration of the applicable cancellation and refund period, often occurs in a span of days or weeks. During this time, Goldline clients can independently and easily conduct their own due diligence to compare products, prices and policies among the thousands of competing precious metals dealers.

## **V. Goldline's Internal Compliance Program**

In addition to providing comprehensive information to Goldline customers about the risks and costs of acquiring precious metals, Goldline has an internal compliance program to ensure best practices among its sales staff. This compliance program was reviewed by lawyers and former senior regulators with expertise in consumer protection, telemarketing, numismatics and regulatory compliance. Goldline's policies are administered by a full-time compliance department with regular input and assistance from outside counsel.

Among other things, Goldline's compliance program trains the sales staff about the requirements of the FTC's Telemarketing Sales Rule, Do Not Call obligations, State telemarketing requirements including seller identification and disclosures, and the importance of adhering to Goldline's compliance rules and Code of Conduct.

All sales members must participate in regular compliance training. Goldline both internally monitors and retains outside auditors to monitor compliance with these policies. Goldline also provides one-on-one counseling and training where issues or concerns arise. To the best of Goldline's knowledge, no other retail precious metals company has devoted more resources or is more committed to its compliance programs.

## **VI. Goldline's Commitment to Customer Service and Satisfaction**

Goldline recognizes that many people are new to the precious metals markets and require time and education before completing a purchase. Thus, in addition to the written materials provided to every prospective client (we should note that Goldline does not “cold call” any prospective client), Goldline also provides a wealth of free information on its website at [www.Goldline.com](http://www.Goldline.com) including live spot prices for gold, silver and platinum, links to news articles on precious metals, and detailed coin descriptions of the most popular coins offered by Goldline. Further, there are a number of free resources available from both independent third parties such as the World Gold Council and thebulliondesk.com as well as information provided by the thousands of competing dealers throughout the United States.

Additionally, clients may choose to acquire precious metals from Goldline's online store rather than speak directly to an Account Executive. Prospective clients can also readily check prices from the online store and compare them to competitors.

Goldline provides all first-time clients who purchase semi-numismatic or numismatic coins with an unconditional seven (7) day cancellation period (or longer depending on applicable state law) that provides a full refund. This allows clients additional time to compare prices, conduct additional due diligence and consult with others about their purchase.

During the sales process, the overwhelming majority of clients will discuss a possible purchase from Goldline over several conversations which may occur days, weeks or months apart before making a decision to buy. In those unusual cases where a client chooses to acquire precious metals before first receiving Goldline's information and risk disclosure packet, Goldline sends these materials via FedEx to the client to ensure they have the information they need before finalizing the transaction. We also direct these clients to our website where they can read *Coin Facts* and our Account and Storage Agreement online.

As an additional safety valve for clients, every client must review and sign our Account and Storage Agreement before their first purchase is finalized. This agreement is available both in hard copy and online. The client chooses how to review and sign this agreement and does so in the privacy of their home or office. If for any reason, the client decides not to sign this agreement, the purchase is cancelled and any money paid is fully refunded.

Goldline's commitment to customer service does not end at the time of sale. We provide a concierge service which is headed by a director level employee to answer any client questions or concerns. Goldline will address every client concern brought to its attention regardless of the size of the order or the time of the purchase. The Better Business Bureau offers this statement regarding Goldline:

This company has been accredited since 01/04/1994 and we are satisfied that it honors its commitment. The company has agreed to uphold our accreditation standards, which include a commitment to act in accordance with ethical business practices and to respond to customer complaints....Our complaint history for this company shows the company gave proper consideration to complaints presented by the Bureau.

Although both Goldline and the client's obligations are set forth in the Account and Storage Agreement, Goldline is asked on occasion to provide an exception such as extending a refund period or changing the quantity or type of product acquired. Rather than stand on the parties' written agreement, Goldline will always work with the client to determine what accommodations can be made. Thus, Goldline often goes beyond the terms of the contract as part of its commitment to customer service.

Our commitment to customer service is reflected in the relatively few complaints submitted to agencies such as the BBB and the FTC. Over the past four years, Goldline has received forty-eight complaints from the BBB which represent less than 1/10<sup>th</sup> of 1% of our total transactions (buys and sells) during this same time period. We also reached an accommodation with each of these clients in more than 85% of the cases.

## **VII. Goldline's Advertising**

Goldline, like most successful businesses, advertises through a variety of marketing channels directed to those people who may be interested in its products. This includes television, radio, print and internet marketing.

The decision on where to advertise is based upon sound business decisions, not political ideology. Currently, the most popular talk radio shows in the United States are hosted by conservative commentators such as Messr. Beck, Levin and Thompson, and Ms. Ingraham. The demographics of these radio programs strongly favor those who are inclined to diversify their portfolios with precious metals. (This is best exemplified by the number of competitors who advertise among these same marketing channels.) The radio hosts themselves share an interest in owning precious metals, an important consideration when deciding where to advertise.

By that same token, Goldline's choice of advertising is not limited to a narrow political spectrum. Before his untimely death, Goldline's principal spokesperson was Jay Johnson, a former Mint Director and Democratic Congressman. Mr. Johnson shared a firm belief that precious metals were an important component of a diversified portfolio. Mr. Johnson was also an avid coin collector who wrote and spoke about numismatics.

Goldline also advertises with other major networks including CNBC, History International and CNN. Goldline has advertised with approximately 14 different networks within the past 12 months.

Goldline's advertising focuses on its most popular products including the Swiss 20 Franc and American Eagle proof coins. All of its advertising is reviewed by outside counsel for compliance with the FTC rules governing truthful advertising. No promises or guarantees of profit are ever made and Goldline consistently advises prospective clients to review Goldline's risk disclosure materials prior to purchase.

## VIII. Concerns Regarding the Proposed Legislation

HR 6149, “The Precious Coins and Bullion Disclosure Act” (the “Act”), requires coin and precious metals dealers to disclose the following information:

- (1) Any fee that is or may be incurred by the customer if the sale of the coin or precious metal bullion were to be consummated.
- (2) The purchase price, the melt value, and the reasonable resale value of the coin or precious metal bullion.

The Act also provides the following definitions:

- (1) the term “coin or precious metal dealer” means any person that sells or offer for sale for investment purposes gold coins or bullion or coins or bullion made of other precious metals;
- (2) the term “melt-value” means the reasonable estimated value of any coin or precious metal if such item were processed and refined; and
- (3) the term “reasonable resale value” means a reasonable price that the coin or precious metal dealer selling the coin or other precious metal determines that other coin or precious metal dealers would pay to purchase the coin or other precious metal from the consumer on the date that such coin or other precious metal is sold to the consumer.

The Act would exempt sales of rare and collectable coins “(1) the precious metal content of which constitutes only a limited or insignificant portion of the overall value of the coin; and (2) whose value is not affected by the increase or decline in the value of such precious metals.”

I will discuss concerns with this legislation, as currently drafted, seriatim.

First, the requirement that precious metals dealers disclose any “fees” to be incurred is duplicative of the FTC’s current requirement under the Telemarketing Sales Rule (“TSR”) to disclose the total cost to purchase any goods. *See* TSR sec. 310.3(a)(1)(i). Similarly, the requirement that a seller disclose the “purchase price” of a product is presently covered under this same section of the TSR.

Second, the requirement that sellers disclose the “reasonable resale value” of a product will create an insurmountable burden on precious metals dealers. As noted above, the proposed legislation defines “reasonable resale value” as “a reasonable price that the coin or precious metal dealer selling the coin or other precious metal determines that other coin or precious metal dealers would pay to purchase the coin or other precious metal from the consumer on the date that such coin or other precious metal is sold to the consumer.”

This definition incorrectly assumes that a precious metals dealer can readily determine what other precious metals dealers would pay (presumably on a wholesale basis) for a specific coin or

bar. In contrast to commodities where a centralized market is available for reference, the physical precious metals market is highly fragmented and no uniform pricing structure is available. Indeed, prices may vary considerably among the thousands of precious metals dealers depending upon their own business models, inventory, liquidity and interest in a product. Some dealers may pay well below a product's melt value and later charge a minimal mark up on the retail sale while others may pay close to the melt value and charge a higher mark-up when selling to a retail customer. Determining on any given day what the "reasonable" wholesale price of a product will be among more than five thousand dealers is literally impossible.

This information also has the potential for misleading the customer. The precious metals markets, like many other markets, are highly speculative and volatile. Prices for products may vary considerably from day to day and from year to year. Suggesting to a customer that he or she will receive the wholesale value of a precious metals should they sell at a later date is highly misleading since, in all likelihood, the value of that product will change in the coming months and years.

Third, the definition of "precious metals dealer" as someone who offers to sell coins or bullion for investment purposes is problematic because of the difficulty in discerning what is offered for "investment purposes." While it is reasonable to assume someone acquiring a quantity of bullion, either in coin or bar form, is likely acquiring these precious metals with some investment intent, this same assumption is not necessarily appropriate for a sale of one or two coins or bars. The proposed legislation does not provide sufficient guidance to a precious metals dealer to know when a sale rises to the level of investment purposes.

We also note this proposed legislation apparently encompasses sellers of precious metals commodities. Currently, such sales are regulated by the Commodities Future Trading Commission ("CFTC"). These requirements may conflict with regulations imposed by the CFTC.

Finally, we are concerned that the proposed exemption for numismatic products is too narrow and will not exclude coins whose value is principally based upon factors such as condition, grade, scarcity and demand. The problem arises from the language "whose value is not affected by the increase or decline in the value of such precious metals." While the value of some numismatic coins is rarely affected by changes in the precious metals markets, many numismatic products are affected by such price changes, albeit far less so than other factors such as condition and demand. This is especially true for numismatic coins at lower Mint State grades and many numismatic silver coins, even at higher grades. As such, we believe the exemption will not properly exclude a number of numismatic products.

## **IX. Conclusion**

Goldline recognizes the importance of providing relevant and timely information to individuals seeking to acquire precious metals. We have consistently sought to provide this information and believe we have led the industry in educating the general public on both the benefits and risks of acquiring precious metals.

We also believe that existing regulation and the highly competitive nature of the precious metals industry which extends well beyond the thousands of precious metals dealers to include those who offer futures, ETFs and mining stocks, offers the best means of ensuring individuals have all of the information they require to make informed buying decisions.

In contrast, the proposed legislation contains a number of problems which we believe will make it unworkable and potentially injurious to both the industry and consumers. These include the unworkable definition of “reasonable resale price” and the narrow exemption for numismatic products.

Goldline thanks the Subcommittee for holding this important hearing and giving me the opportunity to comment. I look forward to answering your questions.