

## **A somewhat belated response to the already notorious EBA report**

*By the Electronic Gulden Foundation*

### **Preamble:**

In the report<sup>1</sup> “Opinion on Virtual Currencies”, as published by the European Banking Authority on July 4<sup>th</sup> of 2014, a clear stance has been taken by the authors regarding the rise of cryptographic money systems.

We feel that the conclusions stated by the EBA greatly lack in objectivity and we are of the opinion that a brief but clear response to their findings is necessary.

In construing our response we have chosen not to tackle the EBA publication on a point-by-point basis, but instead reflect on the five main themes, as postulated by the EBA, as we feel that they, whether they intended to do so or not, do miss the mark. We are aware of other initiatives, from within the cryptographic money community, that aim to repudiate the EBA story item-per-item, and we applaud their efforts and passion. However, there is a chance that such efforts lead to an “I say yes/you say no” stalemate and that the interaction sought gets mired into a semantics discussion. After all the EBA has vast resources at its disposal, allowing them to quickly react to contentions coming from the community, thus empowering them to obfuscate the parlay.

To enable people to come to a point of view on developments, which seemingly pose a threat to the Establishment, it is necessary that the greater audience hears another side of the story, without vested interests distorting the message.

The decentralized character of cryptographic money systems makes it hard to find an entity of repute that can represent -and lends a voice to- the new economy. One of the goals of the Electronic Gulden Foundation is to provide information to the Dutch people. We hope that we can evolve into a diverse, well informed and properly equipped group possessing the ability to counterbalance the sheer endless stream of biased reports and messages released onto the world solely to the benefit of the financial order.

For us it is disappointing to having to conclude that the community of banks opted to use a condescending and disparaging tone of message in order to communicate about crypto money and the people who are passionate about the coins. For an industry so dependent on trust it is frankly alienating to experience how they think they can exclude a new generation of consumers and how they try to slur and discourage initiatives emanating from this generation.

The banking community somehow feels that they are -greatly- elevated above their own customers and address that what they cannot control, or that doesn't bear their stamp of “approval”, in a rather derogatory way. What they fail to identify is that, through their own hubris, they might attain the opposite of what they intended to reach. The banking industry has not manifested itself well the last few years, and this is stretching the cautious use of euphemisms to the extreme.

The manner in which the industry feels compelled to address novelties and proponents of innovation is backfiring, as by doing so they are feeding -rather than starving- the growing lack of understanding by the common man. This may pose a future threat to the continuity of their business, especially if they are unable, or publicly show their inability, to adjust to the current Zeitgeist.

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<sup>1</sup> <http://www.eba.europa.eu/documents/10180/657547/EBA-Op-2014-08+Opinion+on+Virtual+Currencies.pdf>

The EBA report refers to “virtual currencies”. In our opinion this discredits the innovation cryptographic money systems entail and as such doesn’t fully cover the subject. Cryptographic money systems are more than just approximations of reality; they derive their added value from mathematical “certainties”<sup>2</sup>. If there is anything that can be considered as virtual it is a fiat bank statement. The amount in fiat currency stated on any bank statement does not physically exist, anywhere. In reality it can only exist as long as we keep pretending that it does.

Such banking constructs of lies and deceit can only exist as long as nobody actually claims the account. For an industry, where trust is sold as a product, it is very disappointing to conclude that they renounce their moral obligation to educate the public on what money is all about, knowing that telling the truth would collapse the entire house of cards edifice. This abject way of doing business, which apparently provides the world of finance’s *raison d’être*, would in any other industry be considered criminal and morally reprehensible. No wonder it’s mandatory for all bank employees to sign a strict code of silence, prior to starting their job.

The crisis has led to a change in perception of people. No longer is all that the financial industry claims accepted as true. More and more people criticize the practices of banks. This process continues to accelerate as more and more dark evils from the financial world are being brought to daylight, by information that flows through the Internet to the greater public. This information can no longer be suppressed or silenced by the elite, through their control of the classical mass media.

A, in our view serious, shortcoming of the EBA report is their position of the absolute necessity of an exponential growth of the fiat currency supply. As the continuation of fiat currency solely depends on growth, the world of finance apparently cannot imagine any other system. Cryptographic money systems are limited<sup>3</sup> – with a fixed sum total- and are, by definition, not restricted by the inflationary straightjacket of an exponential increase of supply.

### **Integrity:**

As cryptographic money systems use public/private key addresses, which are more or less anonymous, the Establishment questions the integrity of the users of crypto coins. The EBA report omits to mention the fact that the inventors and users of crypto money themselves seriously doubt the financial industry’s own integrity.

We are being flooded by news that highlights the utter failings of the financial industry. The billions of dollars in fines to the Rabobank, for manipulating the LIBOR interest rates, the penalties to the HSBC bank for laundering Mexican drug cartel money, the tax-payer funded bail-out of the European system banks after their disastrous Greek investments and the bloated bonuses bankers still award themselves, despite the fact that they obviously failed, as managers and as human beings, are sufficient reason for anyone with a sense of morality, to think deep thoughts about the system we are supposedly obliged to support.

Choices that are being made to facilitate military activities, which are pretty lucrative to the banking community, whilst at the same time there are –supposedly- insufficient funds to provide clean drinking water to the citizens of a city such as Detroit, MI (can’t make money on that!), raise questions on the state of integrity of the Establishment. Will such questions ever be truthfully answered by the banking industry? What do you think?

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<sup>2</sup> <https://en.bitcoin.it/wiki/Difficulty>

<sup>3</sup> <https://en.bitcoin.it/wiki/Target>

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**The risk of anonymity:**

The EBA report seemingly provides a blueprint to initiate cryptographic money systems. One of the issues they deem risky is the common practice of launching crypto coins anonymously, without the founding developers being known, publicly. The position –fallacy- the EBA adopts here is that anyone can start his/her own protocols anonymously, that the system is thus an anonymous one and that this thus encourages fraudulent behaviour. We do acknowledge this risk, but are, by the same token, of the opinion that the protocol of a cryptographic currency can continue to develop positively, even when it becomes apparent that the intentions of the founder(s) differ from what he/she has made public at the start.

This is what has happened with the e-Gulden. At the launch and introduction of our beloved coin, the then developers made optimal use of local and national media to direct a campaign aimed at tying interested parties to the founding of the e-Gulden as well as to persuade people to invest into the concept of the coin, whilst they stayed strictly anonymous.

Just as mentioned by the EBA as a distinct possibility, the e-Gulden founders committed identity fraud and broke just about every promise, after the successful introduction of the EFL. As a result the value of our protocol was substantially reduced after the first few weeks.

What the EBA did not take into consideration is the tenacity with which a highly motivated community can stick to an inherently good protocol, the strength of the algorithm used and the great enthusiasm with which people embrace the emergence a new way of paying and saving.

The self-purifying properties, that so typify crypto coins, helped stabilize the value of our coin and its value is again increasing gradually. In our opinion the transparent character of cryptographic money systems ensures that, even when all risks cumulate into a perfect storm of onerous conditions, a protocol does not just disappear.

If we manage to attain our goal to successfully turn the e-Gulden around, this will be proof-positive that even the worst of launches of a singular cryptographic protocol is not a reason to doubt the inherent strength cryptographic coins possess.

Outside the mathematical certainty of the protocol, this strength is further reinforced by the moral awareness of participants. Where the current economic conditions restrict the many and favour the few, participants in cryptographic money systems are equals, which should apply to all inhabitants of this planet, of course. What binds crypto participants is the Zeitgeist, and the awareness that we are all connected through time.

As opposed to the current system, where wealth is the seemingly singular right of a few privileged people, who cling to the idea that this “right” must be protected by excluding 99% of the human race, cryptographic money systems flourish when there are no such privileges and where thresholds to participate do not exist.

The adoption of cryptographic money systems, and the socio-economic thinking behind this concept, diametrically opposes the usual “values””. The main reason the elite is trying to obstruct this development, no matter what, is that their lofty position in society is derived from preying on the monetary system of fiat money.

The existence of oligopolies on money creation, by a small group of high-and-mighty, it is possible to oppress the hoi polloi. That is why the elite is attempting to obtain a complete picture of, and gain access to, the financial means of the masses, cursorily rejecting the basic human right that financial privacy is for every man, woman and child.

Only by rigidly maintaining the current status quo the elite can retain its lofty position. It is for this purpose that they use the mass media to disseminate incorrect and incomplete information. A thorough revision of these practices is therefore an absolute necessity.

**The risk of pyramid building:**

The EBA causally connects cryptographic money systems and Ponzi schemes. Pyramid building is basically an instrument issued by a central body, whereby early investors get some of the proceeds of investments by new entrants. These schemes promise a high return on investment, often in excess of 10% per annum, which some people may attain, but always to the detriment of later/last participants. Those will invariably hold the short end of the stick.

If one looks at cryptographic money systems, where one coin will always be one coin, and where a coin cannot be multiplied by applying tricks, as is the case with fiat money (where interest will always ensure a certain return), it is obvious that, because of this phenomenon, crypto coins can simply never be a Ponzi scheme in their own right or be used as such. This the EBA fails to acknowledge.

As the EBA uses fiat currency as benchmark, the return of an investment in cryptographic money is potentially enormous. By stating this as such, a link to a Ponzi scheme is easily made. However, the possibility that cryptographic money could greatly increase in value against fiat has more to do with the inflationary depreciation of fiat currency accounting units, against the steady units of account of crypto coins, is not recognized by the EBA.

What also defuses the argument of crypto-as-a-Ponzi-schema is the decentralized emission of cryptographic money. The lack of having a central authority is yet another reason why one should not compare cryptographic money with building pyramids.

That there are investment schemes on the market, in crypto, through various trading platforms, that are inherently Ponzi schemes, is a fact that cannot be denied. Here the trade in crypto coins does not differ much, or not at all, from trade on regulated markets such as NYSE.

A new -fiat currency- Ponzi scheme is detected, on average, every four days or so. Look at [www.ponzitracker.com](http://www.ponzitracker.com) or Google “exchange rate developments of CYNK Technology Corp” and you’ll find examples aplenty. In our view, this clearly demonstrates that regulation per se does not offer solutions. Promises of high yield investments should always be viewed with a critical eye, be these in fiat or in crypto monies.

**Risk of trading platforms fraud:**

The bankruptcy of Mt Gox, in February of 2014, is a negative milestone reached for Bitcoin. People, who were not aware of cryptographic money previously, did hear about this particular insolvency as it was broadly covered by the media. The Mt Gox story unfortunately “colours” Bitcoin and crypto coins in general by giving these an aura of perceived criminality. The EBA has been eager to exploit the Mt Gox event, to “warn” the public about the great dangers posed by crypto money.

That trading via external parties poses risks is also inevitable in the traditional system, where risks play out a lot more, and in orders of magnitude higher, than is applicable to cryptographic coins, is something the EBA comfortably neglects to mention.

A typical example, of which probably only few people heard about, is that of Jon Corzine<sup>4</sup> and the MF Global<sup>5</sup> company, whose actions pose a serious threat to the retirement portfolio of a great number of people, and which were barely mentioned in the press. Just click on the links, you'll find the content sadly illuminating.

Fortunately, the transparent character of cryptographic money systems will ensure that such practices can be avoided in the future. Soon it will be practical for trading platforms to open their books for public scrutiny 24/7. Cryptographic money systems can mitigate the risks of trading platforms to more acceptable levels than is possible with Dollars, Euros etc.

In the current system, where contractual obligations lead to losses that cannot be recovered, investors are not protected from the MF Global type of larceny and it appears that this will not change any time soon.

Although some countries are drafting improved legislation, such as legal amendments<sup>6</sup> introduced in the United States, there is a long way to go before improved laws are passed, due to pressure and delaying tactics employed by the powerful financial lobby.

#### **Currency risks:**

The currency risks that may arise with crypto coins can be a problem to merchants. However, innovative services should make it possible to reduce these risks to practically zero. It is more the pity that traditional banks are yet to acknowledge the potential of improved services as a means to scale down risks. It appears that attenuating risk for their customers does not serve their own interest. Essentially, fiat currencies have the same risk profile as cryptographic ones, albeit at a much higher level, due to the staggering volume of fiat money.

What is really irritating is that banks designate entrepreneurs, who accept cryptographic money, as belonging to "high" risk categories. That is why such entrepreneurs are forced to pay a premium to banks when applying for future finance. It is obvious that this negatively affects their competitiveness.

By exploiting this system of financial apartheid, it looks like the Establishment is attempting to slow down the development -and discourage the use- of cryptographic coins.

Innovation has always been and will always be a melee of opportunities and threats. Although the EBA is trying to nip crypto innovation in the bud -to the detriment of entrepreneurs- it is likely that this practice will backfire, eventually. After all transparency will almost always beat oppression.

Banks should really try to reform themselves and adapt to this new age, where people have a far better understanding of the concept of money than ever before and who have gained further insight into the flow of currencies.

Instead, they keep on clinging to the golden era of practice past, when it was possible to defraud the masses, unhindered and unpunished.

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<sup>4</sup> [http://nl.wikipedia.org/wiki/Jon\\_Corzine](http://nl.wikipedia.org/wiki/Jon_Corzine)

<sup>5</sup> [http://en.wikipedia.org/wiki/Jon\\_Corzine#MF\\_Global](http://en.wikipedia.org/wiki/Jon_Corzine#MF_Global)

<sup>6</sup> <https://beta.congress.gov/bill/113th-congress/senate-bill/1725>; <https://beta.congress.gov/bill/113th-congress/house-bill/3482>

**Regulatory risks:**

The EBA identifies multiple ‘risks’ regarding the regulation of financial instruments. We might try to tackle these findings, point by point, but the many vagaries in the report and the liberal use of meaningless jargon makes this a very difficult exercise. We therefore ascertain that the perceived need of regulation by itself poses an even greater risk.

In its bare essence regulation is nothing more than forcedly imposing restrictions on individuals, that usually only benefits one party whilst acting to the detriment of others. Regulation is as such wholly undesirable.

The EBA intentionally(?) does not address the phenomenon that the participation in a cryptographic protocol is always a voluntary act, and that people partially base their decision to participate on the absence of regulation and the benefit of not having to cope with the meddling of regulatory bodies.

As the banking industry derives its power from regulation, and as this is stipulated in the report as positive and normative as opposed to the lack of such with crypto, the obvious fact that, in the current climate of investment, fraud is rife, is almost completely ignored.

It appears that rules and regulations are here for arbitrary reasons only and mainly serve as instruments to brush aside unwanted players.

Monetary freedom and financial privacy are amongst the basic rights of every human. It is time we reclaim these rights so that we can attain a fairer distribution of wealth. The urge of the elite to keep on regulating is understandable; suppression of the people and the people’s initiatives is what gives them legitimacy.

We conclude this paragraph by postulating that the wish to regulate cryptographic money systems, such as the e-Gulden, is but a vain one. It’s like attempting to legislate the fundamental laws of physics in such ways that their properties can be manipulated and changed. Something that is fundamentally good doesn’t require to be encapsulated in rules, but will eventually regulate itself.

**Legality:**

The last part of the EBA piece addresses the legal relevance of virtual money systems. Unfortunately the EBA omits to put this into the historical perspective as to how the current system of laws and legislation came to be. For many years, in the US and other countries, large corporations could hack the legislative process and subsequently write many bills to their own benefit, whilst simultaneously financing the political adoption of these into law!

As our democratic system is highly susceptible to corruption, corporations can do so with impunity. After all the “people’s” representatives have to engage into expensive campaigns in order to get elected to public office, and corporate sponsors use the financial needs of politicians as a means to construe legislation and push this through backdoors, in ways that lie beyond the control of the common voter. As long as private financing of political activities exists, bribery and unwarranted influence will be an integral part of the legislative process.

For those of us who want to change the ways things are going politically, it is a good thing to know that the technology of cryptographic money systems is not merely a protocol for monetary exchange, but that it can also be used for democratic purposes.

The day the masses recognise the advantages of crypto and start using crypto to counterbalance the modus operandi of the financial industry's elite, the time has come that legislation will again be made by the people, for the people.

The given that legal instruments construed by the elite allows members of that same elite to oppress and exploit the majority of mankind for their own greater gain, and the fact that they control the mass media, making independent news nothing but a farce, is a festering disease that must be cured as soon as feasible.

We need to rid ourselves of the protective laws passed for the benefit of the elite, and curb the ever increasing expansion of the privileges of the few, who make this happen by having an oligopolistic grip on fiat currency.

If we allow that a select group of people, under the pretext of guaranteeing safety and protecting the economic status quo, continues to pillage our savings and pensions, the divide between haves and have-nots will grow and grow. There will come a time when this can no longer be stopped and the destiny of mankind will forever be subjected to the whims and greed of a small and parasitic order.

We believe that cryptographic money systems embraced by the masses (the e-Gulden and its sisters, of course) can and will make a real difference here.

Finally, this piece is but a summary response to the voluminous EBA report. We hope to tighten up the discussion that is ongoing in the community of cryptographic currency aficionados, and we like to invite everyone to collaborate with us so that we can tackle the European Banking Authority further.

Should you wish to make a constructive contribution to this endeavour, and help the cryptographic currency community to refute the fallacies of the EBA, we'd love to hear from you! Of course you can also support us by purchasing some EFL coins!

Only by working together we'll be able to take back control of our own finances. Cryptographic currency and crypto technology are the tools we have -other than starting a bloody revolution- to bring the power back where it belongs;

*to us, the people!*

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