



# **ETFS Foreign Exchange Limited**

**Registered No: 103518**

**Report and Financial Statements for the  
Year ended 31 December 2016**

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**Directors**

Graham J Tuckwell – Chairman  
Christopher J M Foulds  
Steven G Ross  
Joseph L Roxburgh

**Registered Office**

Ordnance House  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

**Manager**

ETFS Management Company (Jersey) Limited  
Ordnance House  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

**Auditor**

KPMG Channel Islands Limited  
37 Esplanade  
St Helier  
Jersey, JE4 8WQ

**Jersey Legal Advisers**

Mourant Ozannes  
22 Grenville Street  
St Helier  
Jersey, JE4 8PX

**Administrator**

R&H Fund Services (Jersey) Limited  
Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

**Registrar**

Computershare Investor Services (Jersey) Limited  
Queensway House  
Hilgrove Street  
St Helier  
Jersey, JE1 1ES

**Trustee**

The Law Debenture Trust Corporation plc  
Fifth Floor  
100 Wood Street  
London, EC2V 7EX  
United Kingdom

**Currency Transaction Counterparty**

Morgan Stanley & Co. International plc  
25 Cabot Square  
Canary Wharf  
London, E14 4QA  
United Kingdom

**Company Secretary**

Joseph L Roxburgh  
Ordnance House  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

**Directors' Report**

The directors of ETFS Foreign Exchange Limited ("FXL" or the "Company") submit herewith the annual report and financial statements of the Company for the year ended 31 December 2016.

**Directors**

The names and particulars of the directors of the Company during and since the end of the financial year are:

Graham J Tuckwell - Chairman  
 Christopher J M Foulds  
 Graeme D Ross (Resigned 7 December 2016)  
 Steven G Ross (Appointed 7 December 2016)  
 Joseph L Roxburgh

**Directors' Interests**

The following table sets out the directors' interests in Ordinary shares as at the date of this report:

| <u>Director</u>   | <u>Ordinary Shares of Nil Par Value</u> |
|---|---|
| Graham J Tuckwell<br>(as majority shareholder of ETF Securities Limited<br>("ETFSL")) | 2                                       |

**Principal Activities**

The Company's principal activity is to issue collateralised currency securities ("Currency Securities"). Currency Securities provide investors with long or short exposure to the daily foreign exchange performance of developed or emerging market currencies or baskets of developed market currencies measured against the US Dollar ("USD"), the Euro ("EUR") or the British Pound ("GBP"). This is achieved by the Currency Securities tracking published currency indices. The price of the Currency Securities is calculated on a daily basis to reflect the change in the relevant currency index and takes into account the payment of a management fee and a daily spread. The Currency Securities are denominated in either USD, EUR or GBP.

Currency Securities are backed by unfunded currency transactions ("Currency Transactions") with terms corresponding to the terms of Currency Securities. Each time Currency Securities are issued or redeemed, corresponding Currency Transactions between the Company and a Currency Transaction Counterparty are created or closed by the Company. A daily payment amount will be calculated in respect of each Currency Transaction on each day to reflect the movement in the relevant currency index and this amount will be payable by either the Company or the Currency Transaction Counterparty. All other cash held by the Company linked to Currency Transactions entered with a Currency Transaction Counterparty will be used to enter into a USD, GBP or EUR denominated daily repurchase transactions with such party in exchange for eligible collateral on the terms described in the Company's prospectus (collectively the "Underlying Assets"). No trading or management of futures contracts is required by the Company.

The Company has entered into a facility agreement with Morgan Stanley & Co. International plc ("Morgan Stanley"), currently the only Currency Transaction Counterparty, enabling the Company to create and cancel Currency Transactions on an ongoing basis.

The Company earns a management fee expressed as an annual percentage, calculated on a daily basis and reflected in the net asset value of the securities on a daily basis, paid monthly in arrears.

The Company has entered into a service agreement with ETFS Management Company (Jersey) Limited ("ManJer" or the "Manager"), whereby ManJer is responsible for supplying or procuring the supply of all management and administration services required by the Company (including marketing) as well as the payment of costs relating to the listing and issue of Currency Securities. In return for these services, the Company pays ManJer an amount equal to the aggregate of the management fee and the creation and redemption fees (the "ManJer Fee"). As a result, amounts in respect of the management fee and creation and redemption fees are transferred directly to ManJer and there are no cash flows through the Company.

**Review of Operations**

The most recent prospectus was issued on 5 April 2016. As at 31 December 2016 the Company had the following number of classes, in aggregate, of Currency Securities in issue and admitted to trading on the following exchanges:

|                                  | <b>London<br/>Stock<br/>Exchange</b> | <b>Borsa<br/>Italiana</b> | <b>Deutsche<br/>Börse</b> | <b>NYSE-<br/>Euronext<br/>Paris</b> |
|----------------------------------|--------------------------------------|---------------------------|---------------------------|-------------------------------------|
| USD Currency Securities          | 59                                   | -                         | 7                         | -                                   |
| EUR Currency Securities          | -                                    | 42                        | 20                        | 6                                   |
| GBP Currency Securities          | 32                                   | -                         | -                         | -                                   |
| <b>Total Currency Securities</b> | <b>91</b>                            | <b>42</b>                 | <b>27</b>                 | <b>6</b>                            |

As at 31 December 2016, the fair value of assets under management amounted to USD 498.5 million (2015: USD 372.5 million). The Company recognises its financial assets (Currency Transactions) and financial liabilities (Currency Securities) at fair value in the Statement of Financial Position.

During the year, the Company generated income from creation and redemption fees and management fees as follows:

|                              | <b>2016<br/>USD</b> | <b>2015<br/>USD</b> |
|------------------------------|---------------------|---------------------|
| Creation and Redemption Fees | 697                 | 1,493               |
| Management Fees              | 3,062,271           | 3,113,716           |
| <b>Total Fee Income</b>      | <b>3,062,968</b>    | <b>3,115,209</b>    |

Under the terms of the service agreement with ManJer, the Company accrued expenses equal to the management fee and creation and redemption fees, which, after taking into account other operating income and expenses, resulted in an operating result for the year of USD Nil (2015: USD Nil).

The gain or loss on Currency Securities and the Currency Transactions is recognised in the Statement of Profit or Loss and Other Comprehensive Income in line with the Company's accounting policy.

The Company has entered into contractual obligations with Authorised Participants to issue and redeem Currency Securities at set prices on each trading day, and these prices are based on agreed formulae published in the prospectus.

IFRS 13 requires the Company to identify the principal market and to utilise the available market price within that principal market. The directors consider that the stock exchanges where the Currency Securities are listed to be the principal market and as a result the fair value of the Currency Securities is the on-exchange price as quoted on those stock exchanges demonstrating active trading. As a result of the difference in valuation methodology there is a mis-match and the results of the Company reflect a gain or loss on the difference between the agreed formula price and the market price of Currency Securities. This gain or loss would be reversed on a subsequent redemption of the Currency Securities. This is presented in more detail in note 7 to these financial statements.

The Company's exposure to risks is discussed in note 11 to the financial statements.

**Dividends**

There were no dividends declared or paid in the year (2015: USD Nil). It is the Company's policy that dividends will only be declared when the directors are of the opinion that there are sufficient distributable reserves.

**Going Concern**

The nature of the Company's business dictates that the outstanding Currency Securities may be redeemed at any time by the holder and in certain circumstances may be compulsorily redeemed by the Company. As the redemption of Currency Securities will always coincide with the closing of an equal amount of Currency Transactions, no liquidity risk is considered to arise. All other expenses of the Company are met by ManJer; therefore the directors consider the Company to be a going concern.

**Future Developments***Referendum of the United Kingdom's ("UK's") membership of the European Union (the "EU Referendum")*

The EU referendum took place on 23 June 2016 and resulted in an overall vote to leave the European Union ("EU"). The EU referendum is non-binding and therefore in order to start the process to leave the EU, the British government will have to invoke Article 50 of the Lisbon Treaty ("Article 50"). Invoking Article 50 starts a two-year period during which a leaving agreement is negotiated setting out the arrangements for the withdrawal and outlining the UK's future relationship with the EU. The exact process for the UK's withdrawal is uncertain, although it is generally expected to take longer than two years as this would require the renegotiation of treaties and agreements, together with legislation changes.

The Company is domiciled in Jersey, outside of the EU, and the Currency Securities are distributed in the EU under the EU Prospectus Directive which requires their offering to the public to be approved by an EU Member State regulator. To date, the Company has chosen the UK Financial Conduct Authority ("FCA") as its member state regulator for these purposes. Request is then made to the FCA, as the chosen Member State regulator, for the passporting of the offering across the EU, once again, under the Prospectus Directive.

It is currently expected that the Company would select an alternate EU Member State regulator through which to seek approval and request passporting for its offering to maintain the Company's access to relevant markets. As the Currency Securities already comply with the European wide requirements of the Prospectus Directive, this is not expected to cause any disruption or alteration to the terms or nature of the Currency Securities.

The Currency Securities continue to comply with all applicable laws and regulations. Continued assessment of the impact will be required throughout the withdrawal process should the United Kingdom leave the EU.

The board of directors (the "Board") are not aware of any other developments that might have a significant effect on the operations of the Company in subsequent financial periods not already disclosed in this report or the attached financial statements.

**Country and Currency Risk**

The Company has exposure to country and currency risk as the Currency Securities provide investors with long or short exposure to the daily foreign exchange performance of developed and emerging market currencies measured against USD, EUR or GBP. However, the directors do not consider the Company to have a significant net exposure to country and currency risk arising from the current economic uncertainties facing a number of countries around the world as the gains or losses on the liability represented by the Currency Securities are matched economically by corresponding losses or gains attributable to the Currency Transactions.

Each Currency Security is a debt instrument whose redemption price is linked directly to the performance of the underlying currency index. The Currency Securities are issued under limited recourse arrangements whereby the holders have recourse only to the value of the Underlying Assets backing the Currency Securities attributable to the class of securities they hold and not to the Company. In addition, since any movements in value of those Underlying Assets backing the Currency Securities are wholly attributable to the Currency Security holders, the Company has no residual exposure. From a commercial perspective the gains or losses on the liability represented by the Currency Securities are matched economically by corresponding losses or gains attributable to the Underlying Assets backing the Currency Securities (see detail on page 3 regarding the accounting mis-match). The Company does not retain any net gains or losses or net risk exposures. Further details surrounding the value of Currency Securities and the Currency Transactions are disclosed in note 11.

**Country and Currency Risk (continued)**

Movements in the price of the Underlying Assets, and thus the value of the Currency Securities, may vary widely which could have an impact on the demand for the Currency Securities issued by the Company. These movements are shown in notes 6 and 7.

In some cases movements in exchange rates can be so significant that they lead to the level of a currency index for any class falling to zero. Since leveraged currency indices provide leveraged exposure to daily changes in foreign exchange rates calculated against a base value determined on the second previous business day, it is possible that in certain highly volatile markets a leveraged currency index may fall to zero where the foreign exchange rate moves by a large amount over the course of two trading days or even where a particular exchange rate moves by a very large amount over the course of one day. In these circumstances the Currency Securities for that class may become subject to compulsory redemption at a zero price. In such situations, the Currency Securities may be redeemed for no value and a security holder will receive no payment on that redemption.

**Employees**

The Company does not have any employees. It is the Company's policy to use the services of specialist subcontractors or consultants as far as possible.

**Directors' Remuneration**

No director has a service contract with the Company. The directors of the Company who are employees within the ETF Securities Group do not receive separate remuneration in their capacity as directors of the Company. R&H Fund Services (Jersey) Limited ("R&H" or the "Administrator") receives a fee in respect of the directors of the Company who are employees of R&H.

The directors' fees which have been paid by ManJer on behalf of the Company for the year:

|                        | <b>2016</b> | <b>2015</b> |
|------------------------|-------------|-------------|
|                        | <b>GBP</b>  | <b>GBP</b>  |
| Graham J Tuckwell      | Nil         | Nil         |
| Christopher J M Foulds | Nil         | Nil         |
| Graeme D Ross          | 7,500       | 7,500       |
| Steven Ross            | 500         | Nil         |
| Joseph L Roxburgh      | Nil         | Nil         |

**Auditor**

A resolution to reappoint KPMG Channel Islands Limited as the auditor of the Company will be proposed at the next meeting of the directors.

**Corporate Governance**

There is no standard code of corporate governance in Jersey. The operations, as previously described in the directors' report, are such that the directors do not consider the Company is required to voluntarily apply the UK Corporate Governance Code.

As the Board is small there is no nomination committee and appointments of new directors are considered by the Board as a whole. The Board does not consider it appropriate that directors should be appointed for a specific term. Furthermore the structure of the Board is such that it is considered unnecessary to identify a senior non-executive director.

The constitution of the Board is disclosed above and will continue to have such a composition of directors beyond the next meeting of the directors.

The Board meets regularly as required by the operations of the Company, but at least quarterly to review the overall business of the Company and to consider matters specifically reserved for its review.

**Internal Control**

During the year the Company did not have any employees or subsidiaries, and there is no intention that this will change. The Company, being a special purpose company established for the purpose of issuing Currency Securities, has not undertaken any business, save for issuing and redeeming Currency Securities, entering into the required documents and performing the obligations and exercising its rights in relation thereto, since its incorporation. The Company does not intend to undertake any business other than issuing and redeeming Currency Securities and performing the obligations and exercising its rights in relation thereto.

The Company is dependent upon ManJer to provide management and administration services to it. ManJer is licensed under the Financial Services (Jersey) Law 1998 to conduct classes U, V and Z of Fund Services Business. ManJer outsources the administration services in respect of the Company to R&H. Documented contractual arrangements are in place with the Administrator which define the areas where the authority is delegated to them. The performance of the Manager and Administrator are reviewed on an ongoing basis by the Board through their review of periodic reports.

ManJer provides management and other services to both the Company and other companies issuing commodity and currency index tracking securities.

The Board having reviewed the effectiveness of the internal control systems of the Manager and R&H, and having a regard to the role of its external auditors, does not consider that there is a need for the Company to establish its own internal audit function.

**Audit Committee**

The Board has not established a separate audit committee; instead the Board meets to consider the financial reporting by the Company, the internal controls, and relations with the external auditors. In addition the Board reviews the independence and objectivity of the auditor.

A handwritten signature in blue ink, appearing to read 'Joseph L Roxburgh'.**Joseph L Roxburgh**

Director

Jersey

13 March 2017

**Statement of Directors' Responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with Companies (Jersey) Law 1991. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

With regard to Regulation 2004/109/EC of the European Union (the "EU Transparency Directive"), the directors confirm that to the best of their knowledge that:

- the financial statements for the year ended 31 December 2016 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by law and in accordance with International Financial Reporting Standards as issued by the IASB; and
- the Directors' Report gives a fair view of the development of the Company's business, financial position and the important events that have occurred during the year and their impact on these financial statements.

The principal risks and uncertainties faced by the Company are disclosed in note 11 of these financial statements.

By order of the Board

A handwritten signature in blue ink, appearing to read 'Joseph L Roxburgh'.

**Joseph L Roxburgh**  
Director  
13 March 2017

## Independent Auditor's Report

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We have audited the financial statements of ETFS Foreign Exchange Limited (the "Company") for the year ended 31 December 2016 which comprises the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as issued by the International Accounting Standards Board.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its result for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.



#### Steven Hunt

For and on behalf of KPMG Channel Islands Limited  
Chartered Accountants and Recognized Auditor  
37 Esplanade  
St. Helier, Jersey  
13 March 2017

Statement of Profit or Loss and Other Comprehensive Income

|   | Notes | Year ended 31 December |                  |
|---|-------|------------------------|------------------|
|   |       | 2016<br>USD            | 2015<br>USD      |
| Revenue   | 3     | 3,062,968              | 3,115,209        |
| Expenses  | 3     | (3,062,968)            | (3,115,209)      |
| <b>Operating Result</b>   | 3     | <b>-</b>               | <b>-</b>         |
| Net Gain Arising on Contractual and Fair Value of<br>Currency Transactions  | 6     | 13,296,835             | 35,897,695       |
| Net Loss Arising on Fair Value of Currency Securities   | 7     | (15,452,562)           | (36,781,873)     |
| <b>Result and Total Comprehensive Income for the<br/>Year</b>   | 7     | <b>(2,155,727)</b>     | <b>(884,178)</b> |
| <br>  |       |                        |                  |
| <sup>1</sup> Adjustment from Market Value to Contractual Value<br>(as set out in the Prospectus) of Currency Securities | 2     | 2,155,727              | 884,178          |
| <b>Adjusted Result and Total Comprehensive Income<br/>for the Year</b>  |       | <b>-</b>               | <b>-</b>         |

The directors consider the Company's activities as continuing.

<sup>1</sup> An explanation of the non-statutory adjustment is set out on page 15. This represents the movement in the difference between the Contractual Value of the Currency Transactions and the market price of Currency Securities.

|   |       | As at 31 December  |                    |
|---|-------|--------------------|--------------------|
|   | Notes | 2016<br>USD        | 2015<br>USD        |
| <b>Current Assets</b>   |       |                    |                    |
| Trade and Other Receivables                                     | 5     | 481,170            | 237,207            |
| Currency Transactions   | 6     | 498,528,510        | 372,528,188        |
| Amounts Receivable on Currency Transactions Awaiting Settlement | 6     | 1,414,849          | 2,166,724          |
| Amounts Receivable on Currency Securities Awaiting Settlement   | 7     | 2,732,769          | 907,415            |
| <b>Total Assets</b>   |       | <b>503,157,298</b> | <b>375,839,534</b> |
| <b>Current Liabilities</b>                                      |       |                    |                    |
| Currency Securities   | 7     | 498,950,272        | 370,794,223        |
| Amounts Payable on Currency Securities Awaiting Settlement      | 7     | 1,414,849          | 2,166,724          |
| Amounts Payable on Currency Transactions Awaiting Settlement    | 6     | 2,732,769          | 907,415            |
| Trade and Other Payables  | 8     | 479,386            | 235,423            |
| <b>Total Liabilities</b>  |       | <b>503,577,276</b> | <b>374,103,785</b> |
| <b>Equity</b>   |       |                    |                    |
| Stated Capital  | 9     | 3                  | 3                  |
| Retained Earnings   |       | 1,781              | 1,781              |
| Revaluation Reserve   |       | (421,762)          | 1,733,965          |
| <b>Total Equity</b>   |       | <b>(419,978)</b>   | <b>1,735,749</b>   |
| <b>Total Equity and Liabilities</b>                             |       | <b>503,157,298</b> | <b>375,839,534</b> |

The financial statements on pages 9 to 23 were approved and authorised for issue by the board of directors and signed on its behalf on 13 March 2017



**Joseph L Roxburgh**  
Director

Statement of Cash Flows

|   | Year ended 31 December |             |
|---|------------------------|-------------|
|   | 2016<br>USD            | 2015<br>USD |
| <b>Operating Result for the Year</b>                    | -                      | -           |
| <i>Changes in Operating Assets and Liabilities</i>      |                        |             |
| (Increase)/Decrease in Receivables                      | (243,963)              | 332,485     |
| Increase/(Decrease) in Payables                         | 243,963                | (332,485)   |
| Cash Generated from/(Used in) Operating Activities      | -                      | -           |
| <b>Net Increase in Cash and Cash Equivalents</b>        | -                      | -           |
| Cash and Cash Equivalents at the Beginning of the Year  | -                      | -           |
| Net Increase in Cash and Cash Equivalents               | -                      | -           |
| <b>Cash and Cash Equivalents at the End of the Year</b> | -                      | -           |

Currency Securities are issued through a receipt of cash directly with the Currency Transaction Counterparties or redeemed by transfer of cash directly by the Currency Transaction Counterparties. Cash flows in respect of the issue and redemption of Currency Securities and the creation and closure of Currency Contracts have been netted off in the Statement of Cash Flows.

The notes on pages 13 to 23 form part of these financial statements

|   | Notes | Stated<br>Capital<br>USD | Retained<br>Earnings<br>USD | Revaluation<br>Reserve <sup>2</sup><br>USD | Total<br>Equity<br>USD | Adjusted<br>Total Equity<br>USD |
|---|-------|--------------------------|-----------------------------|--|------------------------|---------------------------------|
| Opening Balance at 1 January 2015   |       | 3                        | 1,781                       | 2,618,143                                  | 2,619,927              | 1,784                           |
| Result and Total Comprehensive Income for the Year  |       | -                        | (884,178)                   | -  | (884,178)              | (884,178)                       |
| Transfer to Revaluation Reserve   | 7     | -                        | 884,178                     | (884,178)                                  | -                      | -                               |
| <sup>3</sup> Adjustment from Market Value to Contractual Value<br>(as set out in the Prospectus) of Currency Securities | 7     | -                        | -                           | -  | -                      | 884,178                         |
| <b>Balance at 31 December 2015</b>  |       | <b>3</b>                 | <b>1,781</b>                | <b>1,733,965</b>                           | <b>1,735,749</b>       | <b>1,784</b>                    |
| Opening Balance at 1 January 2016   |       | 3                        | 1,781                       | 1,733,965                                  | 1,735,749              | 1,784                           |
| Result and Total Comprehensive Income for the Year  |       | -                        | (2,155,727)                 | -  | (2,155,727)            | (2,155,727)                     |
| Transfer to Revaluation Reserve   | 7     | -                        | 2,155,727                   | (2,155,727)                                | -                      | -                               |
| <sup>3</sup> Adjustment from Market Value to Contractual Value<br>(as set out in the Prospectus) of Currency Securities | 7     | -                        | -                           | -  | -                      | 2,155,727                       |
| <b>Balance at 31 December 2016</b>  |       | <b>3</b>                 | <b>1,781</b>                | <b>(421,762)</b>                           | <b>(419,978)</b>       | <b>1,784</b>                    |

<sup>2</sup> This represents the difference between the Contractual Value of the Currency Transactions and the market price of Currency Securities.

<sup>3</sup> An explanation of the non-statutory adjustment is set out on page 15.

The notes on pages 13 to 23 form part of these financial statements

## 1. General Information

ETFS Foreign Exchange Limited (the “Company”) is a company incorporated in Jersey. The address of the registered office is Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW.

The ETF Securities Group specialises in the development and issuance of Exchange Traded Products (“ETPs”). ETPs include Exchange Traded Commodities (“ETCs”) and Exchange Traded Funds (“ETFs”). The ETCs issued by the Company are secured, undated, limited recourse debt securities designed to track the value (before fees and expenses) of an underlying commodity, index or currency while providing market liquidity for the investor.

The purpose of the Company is to provide a vehicle that permits trading of the Currency Securities and the Company does not make gains from trading in the underlying currencies themselves. The Currency Securities are issued under limited recourse arrangements whereby the Company has no residual exposure to price movements of the underlying currency indices, therefore from a commercial perspective gains and losses in respect of Currency Transactions will always be offset by a corresponding loss or gain on the Currency Securities. Further details regarding the risks of the Company are disclosed in note 11.

ETCs are not typically actively managed, are significantly lower in cost when compared to actively managed mutual funds and are easily accessible to investors. No trading or management of futures contracts is required of the Company because the Company has entered into arrangements to acquire an equivalent asset exposure from a third party which fully hedges the exposure of the Company.

The Company is entitled to:

- (1) a management fee which is calculated by applying a fixed percentage to the contractual value of Securities in issue on a daily basis; and
- (2) creation and redemption fees on the issue and redemption of the Securities.

No creation or redemption fees are payable to the Company when investors trade in the Securities on a listed market such as the London Stock Exchange.

The Company has entered into a service agreement with ETFS Management Company (Jersey) Limited (“ManJer” or the “Manager”), whereby ManJer is responsible for supplying or procuring the supply of all management and administration services required by the Company (including marketing) as well as the payment of costs relating to the listing and issuance of Currency Securities. In return for these services, the Company pays ManJer an amount equal to the management fee and the creation and redemption fees earned (the “ManJer Fee”). As a result there are no operating profits or losses recognised through the Company.

## 2. Accounting Policies

The main accounting policies of the Company are described below.

### Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

### Going Concern

The nature of the Company’s business dictates that the outstanding Currency Securities may be redeemed at any time by the holder and in certain circumstances may be compulsorily redeemed by the Company. Generally, only security holders who have entered into an authorised participant agreement with the Company (“Authorised Participant”) can submit applications and redemptions directly with the Company. As the redemption of Currency Securities will always coincide with the closure of an equal amount of Currency Transactions, no net liquidity risk is considered to arise. All other expenses of the Company are met by ManJer; therefore the directors consider the Company to be a going concern and have prepared the financial statements on this basis.

## 2. Accounting Policies (continued)

### Critical Accounting Estimates and Judgements

The presentation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The only key accounting judgement required to prepare these financial statements is in respect of the valuation of Currency Transactions and Currency Securities held at fair value through the profit or loss as disclosed in notes 6 and 7. Actual results could vary from these estimates.

### Accounting Standards

#### (a) *Standards, amendments and interpretations adopted in the year:*

In preparing the financial statements the Company has adopted all new or revised Standards and Interpretations, including:

- IAS 1 Presentation of Financial Statements – Disclosure Initiative
- IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interest in Other Entities and IAS 28 Investments in Associates and Joint Ventures – Applying the Consolidation Exception
- IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
- IFRS 14 Regulatory Deferral Accounts
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Agriculture: Bearer Plants
- IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements
- Annual Improvements to IFRS, including the following standards:
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7 Financial Instruments: Disclosures
  - IAS 19 Employee Benefits
  - IAS 34 Interim Financial Reporting

Of those Standards and Interpretations adopted in the current year, none have resulted in any significant effect on these financial statements.

#### (b) *New and revised IFRSs in issue but not yet effective:*

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 Financial Instruments (as amended in 2014) (effective for annual periods beginning on or after 1 January 2018)
- IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (no effective date set)
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)
- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)
- IAS 12 Income Taxes (effective for annual periods beginning on or after 1 January 2017)
- IAS 7 Statement of Cash Flows – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017)
- IFRS 2 Share-based Payment (effective for annual periods beginning on or after 1 January 2018)
- IFRS 4 Insurance Contracts (overlay approach to be applied when IFRS 9 is first applied, deferral approach effective for annual periods beginning on or after 1 January 2018 and only available for three years after that date)
- Annual Improvements to IFRS

**2. Accounting Policies (continued)****Accounting Standards (continued)**

The directors intend to adopt IFRS 9 for the annual period beginning on 1 January 2018. The directors have undertaken a preliminary assessment of the impact of adopting IFRS 9 and have concluded that there would be no impact on the amounts reported in respect of the Company's financial instruments. Disclosures in the financial statements will be amended as necessary to meet the requirements of the standard.

The directors do not expect the adoption of the remaining standards, amendments and interpretations that are in issue but not yet effective will have a material impact on the financial statements of the Company in future periods.

The directors have considered other standards and interpretations in issue but not effective and concluded that they would not have a material impact on the future financial periods when they become available.

**Currency Securities and Currency Transactions****i) Issue and Redemption**

The Company has entered into a facility agreement with Morgan Stanley & Co. International plc ("Morgan Stanley") to permit the Company to create and cancel Currency Transactions at prices equivalent to Currency Securities issued or redeemed on the same day. Each time a Currency Security is issued or redeemed by the Company a corresponding number and value of Currency Transactions are created or closed with Morgan Stanley.

Financial assets and liabilities are recognised and de-recognised on the transaction date.

**ii) Pricing**

A single price is established for each Currency Transaction as at the end of each Pricing Day. Currency Transactions are priced by reference to the MSFX<sup>sm</sup> Indices. The Currency Indices are total return indices and are calculated and published by Morgan Stanley. The indices are calculated in accordance with the MSFX<sup>sm</sup> Indices Manual. This price is calculated based on the formula set out in the prospectus, and is referred to as the 'Contractual Value'.

IFRS 13 requires the Company to identify the principal market and to utilise the available market price within that principal market. The directors consider that the stock exchanges where the Currency Securities are listed to be the principal market and as a result the fair value of the Currency Securities is the on-exchange price as quoted on those stock exchanges demonstrating active trading. The Currency Securities are priced using the closing mid market price on the Statement of Financial Position date.

Consequently a difference arises between the value of Currency Transactions (at Contractual Value) and Currency Securities (at market value) presented in the Statement of Financial Position. This difference is reversed on a subsequent redemption of the Currency Securities and closure of the corresponding Currency Transactions.

**iii) Designation at fair value through Profit or Loss**

Each Currency Security and Currency Transaction comprise a financial instrument whose price is linked to the performance of the relevant currency index. Currency Securities in issue and Currency Transactions are designated at fair value through profit or loss upon initial recognition. This is in order to enable gains or losses on both the Currency Securities and Currency Transactions to be recorded in the Statement of Profit or Loss and Other Comprehensive Income.

Through the mis-matched accounting values, the results of the Company reflect a gain or loss which represents the movement in the cumulative difference between the Contractual Value (based on the formula set out in the prospectus) of the Currency Transactions and the market price of Currency Securities. This gain or loss is transferred to a Revaluation Reserve which is non-distributable. The results of the Company are adjusted through the presentation of a non-statutory movement entitled 'Adjustment from Market Value to Contractual Value (as set out in the prospectus) of Currency Securities'.

**2. Accounting Policies (continued)****Currency Transactions and Currency Securities Awaiting Settlement**

The issue and redemption of Currency Securities, and the creation and closure of Currency Transactions, is accounted for on the transaction date. Where settlement pricing is applied, the transaction will not settle until two days after the transaction date. Where transactions are awaiting settlement at the year end, the monetary value of the Currency Transactions and the Currency Securities due to be settled is separately disclosed within the relevant assets and liabilities on the Statement of Financial Position.

**Revenue Recognition**

Revenue is recognised to the extent that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty.

Fees received for the issue and redemption of Currency Securities are recognised at the date on which the transaction becomes legally binding. Other income and expenses are recognised on an accruals basis.

**Loans and Receivables**

The loans and receivables are non-derivative financial assets with a fixed payment amount and are not quoted in an active market. After initial measurement the loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortised cost of an instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Gains and losses on loans and receivables which are impaired are recognised immediately through profit or loss.

**Foreign Currency Translation**

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in United States Dollars, which is the functional currency of the Company, and the presentational currency of the financial statements.

Monetary assets and liabilities denominated in foreign currencies at the year end date are translated at rates ruling at that date. Creation and redemption fees are translated at the average rate for each month in which they are incurred. The resulting differences are accounted for through profit or loss.

**Segmental Reporting**

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the Chief Operating Decision Maker ("CODM") in order to allocate resources to the segments and to assess their performance. The CODM has been determined as the board of directors. A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Company has not provided segmental information as the Company has only one business or product group, Currency Securities, and geographical segment which is Europe. In addition the Company has no single major customer from which greater than 10% of revenue is generated.

All information relevant to the understanding of the Company's activities is included in these financial statements.

Notes to the Financial Statements (Continued)

3. Operating Result

Operating result for the year comprised:

|                                 | Year ended 31 December |                    |
|---------------------------------|------------------------|--------------------|
|                                 | 2016<br>USD            | 2015<br>USD        |
| Creation and Redemption Fees    | 697                    | 1,493              |
| Management Fees                 | 3,062,271              | 3,113,716          |
| <b>Total Revenue</b>            | <b>3,062,968</b>       | <b>3,115,209</b>   |
| ManJer Fees                     | (3,062,968)            | (3,115,209)        |
| <b>Total Operating Expenses</b> | <b>(3,062,968)</b>     | <b>(3,115,209)</b> |
| <b>Operating Result</b>         | <b>-</b>               | <b>-</b>           |

Audit Fees for the year of GBP 22,330 will be met by ManJer (2015: GBP 22,000).

4. Taxation

The Company is subject to Jersey Income Tax. The Jersey Income Tax rate applicable to the Company for the foreseeable future is zero percent.

5. Trade and Other Receivables

|                                      | As at 31 December |                |
|--------------------------------------|-------------------|----------------|
|                                      | 2016<br>USD       | 2015<br>USD    |
| Management Fees                      | 481,167           | 237,204        |
| Amounts Receivable on Stated Capital | 3                 | 3              |
|                                      | <b>481,170</b>    | <b>237,207</b> |

The fair value of these receivables is equal to the carrying value.

6. Currency Transactions

|                                     | As at 31 December  |                    |
|-------------------------------------|--------------------|--------------------|
|                                     | 2016<br>USD        | 2015<br>USD        |
| Change in Fair Value for the Year   | <b>13,296,835</b>  | <b>35,897,695</b>  |
| Currency Transactions at Fair Value | <b>498,528,510</b> | <b>372,528,188</b> |

As at 31 December 2016, there were certain amounts of Currency Transactions awaiting settlement in respect of the creation or redemption of Securities with transaction dates before the year end and settlement dates in the following year:

- The amount receivable on Currency Transactions as a result of unsettled redemptions of Currency Securities is USD 1,414,849 (2015: USD 2,166,724).
- The amount payable on Currency Transactions as a result of unsettled creations of Currency Securities is USD 2,732,769 (2015: USD 907,415).

Notes to the Financial Statements (Continued)

7. Currency Securities

Whilst the Currency Securities are quoted on the open market, the Company's ultimate liability relates to its contractual obligations to issue and redeem Currency Securities with Authorised Participants at set prices on each trading day. These prices are based on agreed formulae, and are equal to the published net asset values ("NAV") of each Currency Security. Therefore, the actual contractual issue and redemption of Currency Securities occur at a price that corresponds to gains or losses on the Currency Transactions. As a result the Company has no net exposure to gains or losses on the Currency Securities and Currency Transactions.

The Company measures the Currency Securities at their market value in accordance with IFRS 13 rather than their Contractual Value (as described in the prospectus). The transferable value is deemed to be the prices quoted on stock exchanges or other markets where the Currency Securities are listed or traded. However Currency Transactions are valued based on the formulae set out in the prospectus.

The fair values and changes thereof during the year based on prices available on the open market as recognised in the financial statements are:

|                                   | As at 31 December   |                     |
|-----------------------------------|---------------------|---------------------|
|                                   | 2016<br>USD         | 2015<br>USD         |
| Change in Fair Value for the Year | <u>(15,452,562)</u> | <u>(36,781,873)</u> |
| Currency Securities at Fair Value | <u>498,950,272</u>  | <u>370,794,223</u>  |

The contractual redemption values and movements in changes thereof during the year based on the contractual settlement values are:

|   | As at 31 December   |                     |
|---|---------------------|---------------------|
|   | 2016<br>USD         | 2015<br>USD         |
| Change in Contractual Redemption Value for the Year | <u>(13,296,835)</u> | <u>(35,897,695)</u> |
| Currency Securities at Contractual Redemption Value | <u>498,528,510</u>  | <u>372,528,188</u>  |

The gain or loss on the difference between the Contractual Value of the Currency Transactions and the market price of Currency Securities would be reversed on a subsequent redemption of the Currency Securities and closure of the corresponding Currency Transactions.

The mismatched accounting values are as shown below and represent the non-statutory adjustment presented in the Statement of Profit or Loss and Other Comprehensive Income:

|   | Year ended 31 December |                  |
|---|------------------------|------------------|
|   | 2016<br>USD            | 2015<br>USD      |
| Net Gain Arising on Contractual and Fair Value of Currency Transactions | 13,296,835             | 35,897,695       |
| Net Loss Arising on Fair Value of Currency Securities                   | (15,452,562)           | (36,781,873)     |
|   | <u>(2,155,727)</u>     | <u>(884,178)</u> |

**7. Currency Securities (continued)**

As at 31 December 2016, there were certain amounts of Currency Securities awaiting settlement in respect of creations or redemptions with transaction dates before the year end and settlement dates in the following year:

- The amount receivable as a result of unsettled creations of Currency Securities is USD 2,732,769 (2015: USD 907,415).
- The amount payable as a result of unsettled redemptions of Currency Securities is USD 1,414,849 (2015: USD 2,166,724).

**8. Trade and Other Payables**

|                     | As at 31 December |         |
|---------------------|-------------------|---------|
|                     | 2016              | 2015    |
|                     | USD               | USD     |
| ManJer Fees Payable | 479,386           | 235,423 |

The fair value of these payables is equal to the carrying value.

**9. Stated Capital**

|   | As at 31 December |      |
|---|-------------------|------|
|   | 2016              | 2015 |
|   | USD               | USD  |
| 2 Shares of Nil Par Value, Issued at GBP 1 Each | 3                 | 3    |

The Company can issue an unlimited capital of nil par value shares in accordance with its Memorandum of Association.

All shares issued by the Company carry one vote per share without restriction and carry the right to dividends. All shares are held by ETFS Holdings (Jersey) Limited ("HoldCo"). ETF Securities Limited ("ETFSL") is the parent company of HoldCo.

**10. Related Party Disclosures**

Entities and individuals which have a significant influence over the Company, either through the ownership or by virtue of being a director of the Company, are related parties.

*Fees charged by ManJer during the year:*

|             | Year ended 31 December |           |
|-------------|------------------------|-----------|
|             | 2016                   | 2015      |
|             | USD                    | USD       |
| ManJer Fees | 3,062,968              | 3,115,209 |

*The following balances were due to ManJer at the year end:*

|                     | As at 31 December |         |
|---------------------|-------------------|---------|
|                     | 2016              | 2015    |
|                     | USD               | USD     |
| ManJer Fees Payable | 479,386           | 235,423 |

**10. Related Party Disclosures (continued)**

The following balances were due from HoldCo at the year end:

|                | As at 31 December |          |
|----------------|-------------------|----------|
|                | 2016              | 2015     |
|                | USD               | USD      |
| Stated Capital | <u>3</u>          | <u>3</u> |

As disclosed in the Directors' Report, ManJer paid Directors' Fees in respect of the Company of GBP 8,000 (2015: GBP 7,500).

Steven G Ross is a director of R&H Fund Services (Jersey) Limited ("R&H" or the "Administrator"). (Graeme D Ross was also a director of R&H until 31 December 2016). During the year, R&H charged ManJer administration fees in respect of the Company of GBP 91,500 (2015: GBP 84,000), of which GBP 22,875 (2015: GBP 21,000) was outstanding at the year end.

Graham J Tuckwell is a director of ETFSL, ManJer and HoldCo. Joseph L Roxburgh is a director of ManJer and HoldCo. Christopher JM Foulds is the Compliance Officer of ManJer.

**11. Financial Risk Management**

The Currency Securities are subject to normal market fluctuations and other risks inherent in investing in securities and other financial instruments. There can be no assurance that any appreciation in the value of securities will occur, and the capital value of an investor's original investment is not guaranteed. The value of investments may go down as well as up, and an investor may not get back the original amount invested.

The Company is exposed to a number of risks arising from its activities. The information provided below is not intended to be a comprehensive summary of all the risks associated with the Currency Securities and investors should refer to the most recent prospectus for a detailed summary of the risks inherent in investing in the Currency Securities. Any data provided should not be used or interpreted as a basis for future forecast or investment performance.

The risk management policies employed by the Company to manage these are discussed below.

*(a) Liquidity Risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due.

When the Authorised Participants redeem Currency Securities, the Company receives from the Currency Transaction Counterparty funds from the collateral pools equal to the value of Currency Securities redeemed. Therefore, the redemption of Currency Securities would not impact the liquidity of the Company. Furthermore, while the agreements with the Currency Contract Counterparties include limits (both daily and in the aggregate) on the creation and closure of Currency Contracts, the Company is not obliged to issue and redeem Currency Securities in excess of those limits under the terms of the facility agreement.

*(b) Credit Risk*

Credit risk primarily refers to the risk that Authorised Participants or the Currency Transaction Counterparty will default on its contractual obligations resulting in financial loss.

The Company has entered into a facility agreement with Morgan Stanley enabling the Company to create and cancel Currency Transactions on an on-going basis. Morgan Stanley is currently the only Currency Transaction Counterparty.

The credit ratings for Morgan Stanley's short term debt is currently P-1 (per Moody's Investor Service, Inc and A-1 (per Standard and Poor's Rating Service). Both credit agencies have assigned a 'stable' outlook.

**11. Financial Risk Management (continued)***(b) Credit Risk (continued)*

If Morgan Stanley discontinued the provision of Currency Transactions and the existing Currency Transactions expired without a replacement Currency Transaction Counterparty being appointed, the Company would be required to redeem the outstanding Currency Securities.

The Company's credit exposure to any Currency Transaction Counterparty in respect of Currency Transactions is intended to be limited on any day to the daily payment amounts due but not settled as at such day.

A Security holder's ability to reclaim assets is equivalent to the assets realised by the Company, therefore limiting the credit risk of the Company in connection with the issue of the Currency Securities.

*(c) Sensitivity Analysis*

IFRS 7 requires disclosure of a sensitivity analysis for each type of market risk to which the Company is exposed to at the reporting date, showing how profit or loss and equity would have been affected by a reasonably possible change to the relevant risk variable.

The Company's rights and liability in respect of Currency Transactions and Currency Securities, respectively, relates to its contractual obligations to issue and redeem Currency Securities with Authorised Participants at set prices on each trading day. As a result the Company's contractual and economic liability in connection with the issue and redemption of Currency Securities is matched by movements in corresponding Currency Transactions. Consequently, the Company does not have any net exposure to market price risk. Therefore, in the directors' opinion, no sensitivity analysis is required to be disclosed.

*(d) Capital Management*

The Company's principal activity is the issue and listing of Currency Securities. These Currency Securities are issued and redeemed as demand requires. The Company holds a corresponding number of Currency Transactions which matches the total liability of the Currency Securities issued. ManJer supplies or arranges the supply of all management and administration services to the Company and pays all management and administration costs of the Company, including trustee and custodian fees. In return for these services the Company pays ManJer a fee, which under the terms of the service agreement is equal to the aggregate of the management fee and creation and redemption fees earned. The Company is not subject to any capital requirements imposed by a regulator and there were no changes in the Company's approach to capital management during the year.

As all Currency Securities on issue are supported by an equivalent number of Currency Transactions and the running costs of the Company were paid by ManJer, the directors of the Company consider the capital management and value of its current capital resources are adequate to maintain the ongoing listing and issue of Currency Securities.

*(e) Settlement Risk*

Settlement risk primarily refers to the risk that an Authorised Participant or the Currency Transaction Counterparty will default on its contractual obligations resulting in financial loss.

The directors believe that settlement risk would only be caused by the risk of the Company's trading counterparty not delivering cash, Currency Securities or Currency Transactions on the settlement date. The directors feel that this risk is mitigated as a result of the cash or Currency Securities settling through the CREST system. The system ensures that the transaction does not settle until both parties have fulfilled their contractual obligations.

Amounts outstanding in respect of positions yet to settle are disclosed in notes 6 and 7.

**11. Financial Risk Management (continued)***(f) Market Risk*

Market risk is the risk that changes in market prices (such as foreign exchange rates, interest rates and equity prices) will affect the Company's income or the value of its financial instruments held or issued.

*i) Price Risk*

The value of the Company's liability in respect of the Currency Securities fluctuates according to the performance of the underlying currency index and the risk of such change in price is managed by the Company by entering into corresponding Currency Transactions which match the liability. The obligation of the Company to holders of the Currency Securities is limited to the net proceeds of the class collateral pool, which comprises rights under the Currency Transactions and daily repurchase transactions entered into with the Currency Transaction Counterparty. The Company bears no financial risk from a change in the price of Currency Securities. Refer to note 7 for the further details regarding fair values.

However, there is an inherent risk from the point of view of investors as the values of currencies are becoming more volatile due to, amongst other things, changing supply and demand for a particular currency, government and monetary authority policy or intervention, interest rate levels and global or regional political, economic or financial events.

The market price of Currency Securities is a function of supply and demand amongst investors wishing to buy and sell Currency Securities and the bid or offer spread that the market makers are willing to quote.

In some cases movements in exchange rates can be so significant that they lead to the level of a Currency Index for any class falling to zero. Since leveraged Currency Indices provide leveraged exposure to daily changes in foreign exchange rates calculated against a base value determined on the second previous business day, it is possible that in certain highly volatile markets a Leveraged Currency Index may fall to zero where the foreign exchange rate moves by a large amount over the course of two trading days or even where a particular exchange rate moves by a very large amount over the course of one day. In these circumstances the Collateralised Currency Securities for that class may become subject to Compulsory Redemption at a zero Price. In such situations, the Collateralised Currency Securities may be redeemed for no value and a Security Holder will receive no payment on that redemption.

*ii) Interest Rate Risk*

The Company holds custody accounts with The Bank of New York Mellon and this is where the cash received in connection with the issue of Currency Securities and received under the Currency Transactions is held. The majority of such cash is used to enter into daily repurchase transactions with the Currency Transaction Counterparty. The multiplier used in the pricing of the Currency Contracts or the Commodity Securities takes into account the incremental capital enhancement component of the Currency Security, which includes the impact of interest rates. As a result the Company does not have significant exposure to interest rate risk.

*iii) Currency Risk*

The Company has exposure to currency risk as the Currency Securities provide investors with long or short exposure to the daily foreign exchange performance of developed and emerging market currencies measured against USD, EUR or GBP. However, the directors do not consider the Company to have a significant exposure to currency risk arising from the current economic uncertainties facing a number of countries around the world as the gains or losses on the liability represented by the Currency Securities are matched economically by corresponding losses or gains attributable to the Currency Transactions.

*(g) Fair Value Hierarchy*

The levels in the hierarchy are defined as follows:

- Level 1 fair value based on quoted prices in active markets for identical assets.
- Level 2 fair values based on valuation techniques using observable inputs other than quoted prices within level 1.
- Level 3 fair values based on valuation techniques using inputs that are not based on observable market data.

Notes to the Financial Statements (Continued)

11. Financial Risk Management (continued)

(g) Fair Value Hierarchy (continued)

Categorisation within the hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement of each relevant asset/liability.

The Company is required to utilise the available market price as the Currency Securities are quoted and actively traded on the open market. Therefore Currency Securities are classified as Level 1 financial liabilities.

The Company's rights in respect of Currency Transactions relate to its contractual obligations to issue and redeem Currency Securities at set prices on each trading day. These prices are based on an agreed formula (set out in the prospectus), and are equal to the published NAVs of each class of Currency Security. Therefore, Currency Transactions are classified as level 2 financial assets, as the Company's asset is calculated using third party pricing sources supported by observable, verifiable inputs.

The categorisation of the Company's assets and (liabilities) are as shown below:

|                       | Fair Value as at 31 December |                      |
|-----------------------|------------------------------|----------------------|
|                       | 2016<br>USD                  | 2015<br>USD          |
| <b>Level 1</b>        |                              |                      |
| Currency Securities   | <u>(498,950,272)</u>         | <u>(370,794,223)</u> |
| <b>Level 2</b>        |                              |                      |
| Currency Transactions | <u>498,528,510</u>           | <u>372,528,188</u>   |

The Currency Securities and the Currency Transactions are recognised at fair value through profit or loss upon initial recognition in line with the Company's accounting policy. There are no assets or liabilities classified in level 3. There were no reclassifications during the year.

12. Ultimate Controlling Party

The immediate parent company is HoldCo, a Jersey registered company. The ultimate controlling party is Graham J Tuckwell through his majority shareholding in ETFSL. ETFSL is the parent company of HoldCo.

The value of the Currency Transactions backing the Currency Securities is wholly attributable to the holders of the Currency Securities.

13. Events Occurring After the Reporting Period

No significant events have occurred since the end of the reporting period up to the date of signing the Financial Statements which would impact on the financial position of the Company disclosed in the Statement of Financial Position as at 31 December 2016 or on the results and cash flows of the Company for the year ended on that date.

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