

ETC Liquidity Explained

Where can I trade ETCs?

ETF Securities' ETCs are listed or cross-listed on a number of major stock exchanges throughout the world. They trade just like an equity and are listed on the following exchanges:

- London Stock Exchange (LSE)
- NYSE Euronext – Paris
- NYSE Euronext – Amsterdam
- Borsa Italiana
- Deutsche Borse
- Irish Stock Exchange
- New York Stock Exchange Arca (NYSE Arca)
- Australian Securities Exchange (ASX)
- Tokyo Stock Exchange (TSE)

Please note that not all ETCs are listed on all of the exchanges named above and that the structures can differ according to the country of listing and local regulations.

When can I trade ETCs?

A key benefit of ETCs lies in the fact that they can be traded continuously during market hours at efficient and transparent prices. This differs from regular investment funds which are only valued once a day and can only be accessed through the investment management company.

Even when the exchange is closed, some market makers will still make prices over the counter prices, especially if the underlying benchmark market is open.

What is the liquidity of an ETC?

ETC liquidity refers to the tradability of the product.

As ETCs are open-ended securities, ETC liquidity is determined by the liquidity of the underlying asset being tracked. The pricing of an ETC should always track the underlying index, otherwise it will be immediately arbitrated away. As a result, pricing is kept to a tight spread around the underlying Price / Net Asset Value (NAV).

ETC liquidity is provided from both the creation/redemption process and multiple Authorised Participants and Liquidity Providers providing extra ETC supply when needed.

Liquidity Providers (LPs) and Market Makers and their role in providing "on screen" liquidity in ETCs

LPs have responsibility for dealing in ETCs and play an important role in making liquidity available in the marketplace. LPs have agreements with each Exchange, in which they commit to posting firm bid and ask prices with a minimum size for each ETC during Exchange trading hours. This guarantees investors that there will always be a two way market with predetermined depth irrelevant of investor direction, which means an investor will always be able to buy or sell their holdings on equal terms. Typically exchanges require bid offer spreads to be within 0.5% to 1.5% depending on each underlying's liquidity, however, in practise, spreads are generally much lower. The available size required by the exchanges is usually in the order of \$250,000 on both sides of the orderbook per LP.

Market Makers refers to any market participant who provides prices to the exchange for a product. LPs are a specialist sub section of market makers who are bound by the exchange to provide prices within certain parameters

The role of the Authorised Participants (APs)

APs are specific market makers who have passed ETF Securities rigorous checks to be able to create and redeem ETC units.

Due to its independence from any bank, ETF Securities is able to efficiently operate a multiple AP platform for its ETCs. This is very different from issuers using a single in-house AP. As ETCs are open-ended, the price is kept in line with the underlying through the creation/redemption facility. APs are the cornerstone of this process: they will create ETCs when there is excess demand for ETCs in issue and redeem ETCs when there is a deficit. Products with single in-house APs can often charge maximum redemption fees in the order of 3%.

The creation/redemption process is paramount to the liquidity of ETCs and their tradability

The creation/redemption process ensures the ETC price is kept in line with the underlying asset/index it is tracking.

Primary market creations

APs will create new ETCs based on demand. They create by either trading the underlying with the issuer or by paying cash. The creation/redemption process operates on the normal settlement cycle (T+3 or T+2).

If an investor asks the AP for an intra day price then the AP will make that price based on where they can hedge in the underlying market (futures or spot markets). The AP will then create at end of day and then close out their hedge at the same time, for example:

- AP sells 1000 shares Physical Gold ETCs at \$96 to investor at 2 p.m. The AP simultaneously buys Gold at \$96
- AP sends in a creation order
- AP delivers Gold and receives Physical Gold ETCs on T+3

Primary market redemptions

The process for redemption is similar to the creation process in reverse. APs redeem by selling or receiving the commodity or cash from the issuer. This also operates on the normal settlement cycle.

How to achieve efficient ETC execution?

Efficient ETC execution is usually achieved by selecting the appropriate execution method for the size of order. Smaller orders are typically executed on exchange either as limit or market orders, larger orders have more choice:

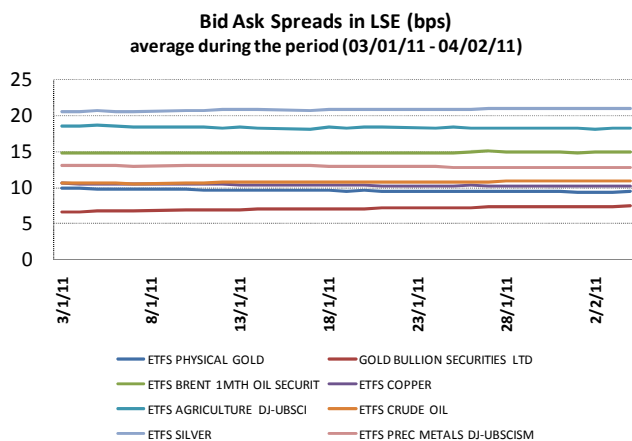
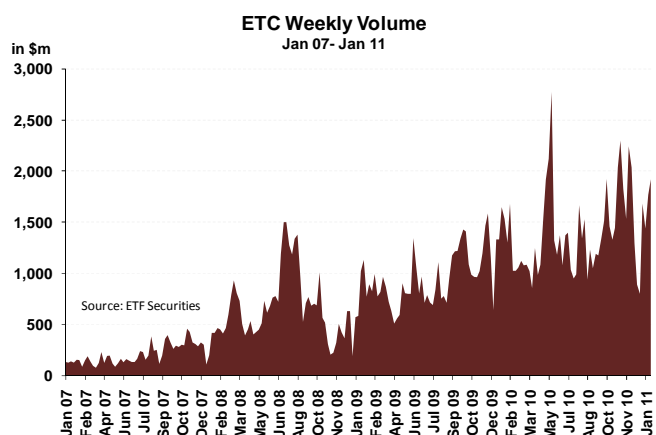
On Screen - An investor can execute limit or market orders on Exchange against the bid offer at the time. Larger orders can be executed against an LP who is required to refresh quotes

Risk pricing / OTC dealing - An investor can call a market maker and ask for a price in larger size than the order book. This should normally be at a similar price to the prevailing spread

NAV end of day pricing - An investor can ask an AP/LP to use the creation/redemption price that night. This should result in no spread beyond trading cost as it should be risk free to the AP/LP

It is important to understand that for some ETCs that are priced off US futures markets that liquidity is usually greater and spreads tighter once the underlying US markets are open. Metal and Energy ETCs have underlying commodity markets open throughout the European stock exchange hours.

ETF Securities' ETCs now trade over \$1bn per week



ETF Securities' ETCs are among the most traded products on the LSE

Most Traded ETPs in the year by trades - 2010

Name	TDIM	Trades	% Total
1 ISHARES FTSE 100	ISF	193,698	14.9%
2 ETFS PHYSICAL GOLD	PHAU	39,578	3.0%
3 ISHARES S&P 500	IUSA	34,852	2.7%
4 SHARES MARKIT IBOXX # CORPORATE BOND	SLXX	28,742	2.2%
5 GOLD BULLION SECURITIES	GBS	28,223	2.2%
6 ISHARES FTSE 250	MIDD	27,978	2.2%
7 ISHARES MSCI EMERGING MARKET	IEEM	24,298	1.9%
8 ETFS LEVERAGED NATURAL GAS	LNGA	24,179	1.9%
9 ISHARES BARCAP # INDEX-LINKED GILTS	INXG	24,049	1.9%
10 ETFS NATURAL GAS	NGAS	23,585	1.8%

Source: London Stock Exchange, as at end of December 2010

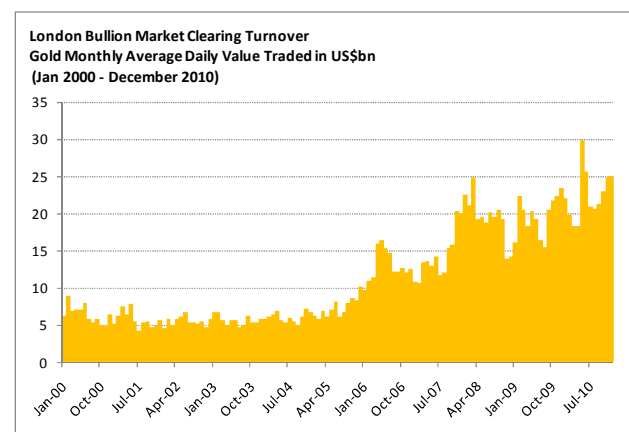
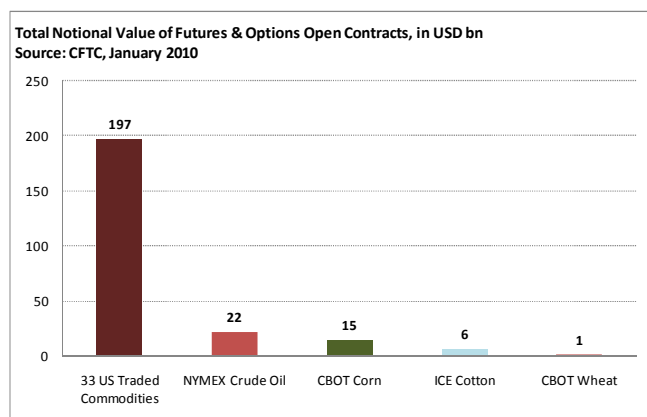
Most Traded ETPs in the year by trades - 2009

Name	TDIM	Trades	% Total
1 ISHARES FTSE 100	ISF	198,759	19.5%
2 ETFS NATURAL GAS	NGAS	42,615	4.2%
3 GOLD BULLION SECURITIES	GBS	40,076	3.9%
4 SHARES GBP CORPORATE BOND	SLXX	39,434	3.9%
5 ETFS LEVERAGED CRUDE OIL	LOIL	39,079	3.8%
6 ISHARES S&P 500	IUSA	37,787	3.7%
7 ETFS PHYSICAL GOLD	PHAU	34,445	3.4%
8 ETFS LEVERAGED NATURAL GAS	LNGA	28,523	2.8%
9 ETFS CRUDE OIL	CRUD	22,291	2.2%
10 ISHARES BARCAP # INDEX-LINKED GILTS	INXG	19,170	1.9%

Source: London Stock Exchange, as at end of December 2009

Underlying markets provide deep liquidity

The total notional value of all futures and options open contracts for the 33 U.S. exchange-traded markets that are included in major commodity indexes was \$945 billion on June 30, 2008 (Source: Staff Report on Commodity Swap Dealers & Index Traders with Commission Recommendations). With regards to liquidity physical commodities, the London Bullion Market Association (LBMA) gold clearing turnover averages \$20bn per month.





ETF Securities Liquidity Providers and Authorised Participants

ETF Securities works closely with a number of market makers. To find out more about liquidity and the market structure supporting the ETF Securities product range please contact our Capital Markets team at etfscapitalmarkets@etfsecurities.com

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About ETF Securities

ETF Securities is a provider of Exchange Traded Products (ETFs, Commodity ETCs and Currency ETCs). The management of ETF Securities pioneered the development of ETCs, with the world's first listing of an ETC, Gold Bullion Securities in Australia and London in 2003 and then the world's first entire ETC platform which was listed on the London Stock Exchange in September 2006.

ETF Securities now offers more than 270 Exchange Traded Products (ETPs). The ETPs provide investors with a wide variety of investment strategies, with ETPs offering access to asset classes such as equities, currencies and commodities with physical, long, forward, leveraged and short exposure.

ETPs are simple to access as they are traded in five currencies (EUR, USD, GBP, JPY and AUD) and listed on nine major exchanges globally including the London Stock Exchange, the New York Stock Exchange, the Tokyo Stock Exchange, NYSE-Euronext Paris, NYSE-Euronext Amsterdam, Deutsche Börse, Borsa Italiana, the Australian Securities Exchange and the Irish Stock Exchange.

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