

ETFS Foreign Exchange Ltd ETCs – Counterparty Risk Explained

About Currency ETCs

Exchange Traded Currencies (ETCs) issued by ETFS Foreign Exchange Limited (FXL or the Issuer) provide investors with a wide variety of investment strategies and offer long, short and/or leveraged exposure to the world's major currencies.

ETCs issued by FXL are transferable securities that can be created or redeemed on demand (by market-makers). They trade on Exchange just like equities and their pricing and tracking operate similarly to Exchange Traded Funds (ETFs). ETCs issued by FXL track the Morgan Stanley MSFXSM suite of currency indices.

Who is the Issuer?

The Issuer is a special purpose vehicle (SPV) specifically created to issue Currency ETCs. The assets of each class of security are segregated for investor protection from the assets of each other class. The Issuer itself is ring-fenced from the rest of the ETF Securities group. The Issuer is regulated by the Jersey Financial Services Commission (JFSC).

Who provides the currency exposure?

ETCs issued by FXL are backed by unfunded Currency Transactions purchased from a Currency Transaction Counterparty (CTC) – currently Morgan Stanley & Co. International plc. Counterparty risk under the Currency Transactions is minimised by way of daily mark to market payments made between the Issuer and the CTC.

The majority of cash held by the Issuer is used to enter daily repo transactions with CTCs in receipt of eligible collateral. A separate repo transaction is entered with respect to cash held in each currency (currently USD, Euro and GBP). As a repo transaction is entered each day, the risk of any reduction in value of eligible collateral is minimised.

What happens upon the bankruptcy of a Currency Transaction Counterparty, the Issuer or ETF Securities?

In the event a Currency Transaction Counterparty were to go bankrupt or to otherwise default, FXL will be able to realise the eligible collateral it holds that relates to the defaulting counterparty and it would close all outstanding Currency Transactions entered with that counterparty.

In the event that the Issuer were to go bankrupt, the independent Trustee would take control of the Issuer's assets on behalf of security holders.

In the event that ETF Securities were to go bankrupt, there should be no impact on the assets of the Issuer as these are ring-fenced from the assets of ETF Securities and are held by the Issuer for the benefit of security holders.

How does the collateral work?

The eligible collateral is held by the Collateral Administrator, The Bank of New York Mellon (BNYM), in a separate custody account in the name of the Issuer.

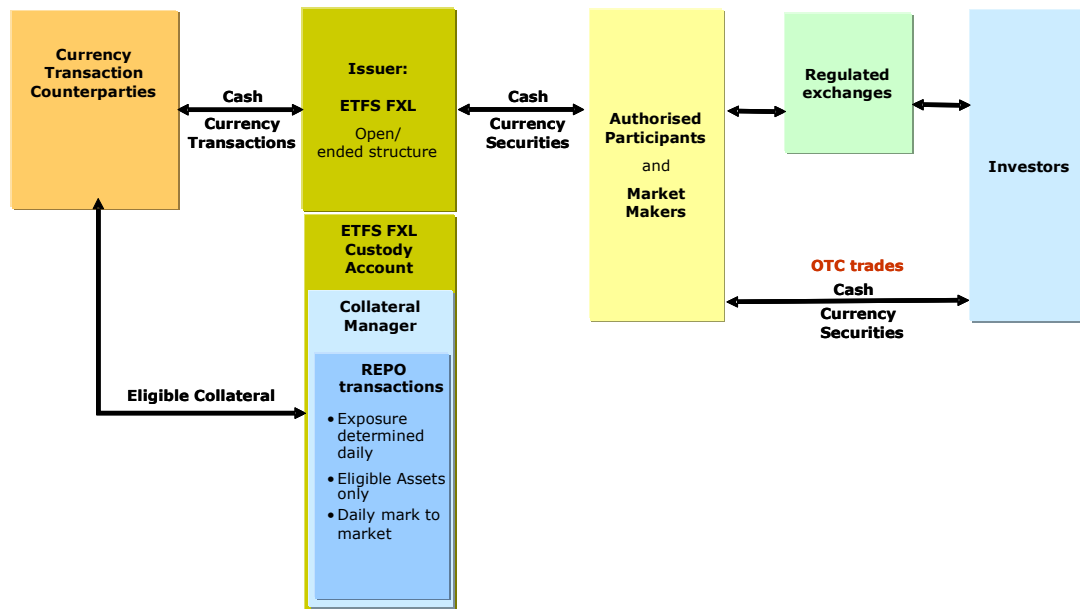
Specific eligibility requirements have been set for all collateral to be purchased under the daily repo transactions and if any collateral fails to meet these requirements it will be excluded for valuation purposes. The eligibility and value of all collateral purchased under the daily repo transactions shall be determined by BNYM and details of the eligibility criteria for collateral are set out in the prospectus of the Issuer.

All transfers of eligible collateral to and from the custody account will be undertaken by BNYM as Collateral Administrator.

In the event a Currency Transaction Counterparty were to default on its obligations, FXL (on behalf of investors) may realise the market value of the eligible collateral it holds that relates to the defaulting counterparty. There is no guarantee that the cash received from realizing such collateral will be sufficient to cover the amounts owed by the defaulting Currency Transaction Counterparty.

Details of eligible collateral held in each custody account is available at:
http://www.etfsecurities.com/en/securities/etfs_collateral.asp.

ETFS Foreign Exchange Ltd. Investment Process



For more information

About ETF Securities

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Other sources of information

www.londonstockexchange.com/etcs
www.morganstanley.com

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: 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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Investors should refer to the section entitled "Risk Factors" in the relevant prospectus for further details of these and other risks associated with an investment in the securities offered by the Issuer.

The prospectus of the Issuer may be obtained from www.etfsecurities.com. Please contact ETFS UK at +44 20 7448 4330 or info@etfsecurities.com for more information.

Passporting and Restricted Investors

The FSA has delivered to the regulators listed below certificates of approval attesting that the prospectus of the Issuer has been drawn up in accordance with Directive 2003/71/EC:

The prospectus (and any supplements thereto) of the Issuer has been passported from the United Kingdom into Denmark, France, Germany, Italy, the Netherlands, Spain and Sweden and has been filed with Finanstilsynet (Financial Supervisory Authority) in Denmark, l'Autorité des Marchés Financiers (AMF) in France the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) in Germany, CONSOB and the Bank of Italy in Italy, the Authority Financial Markets (Autoriteit Financiële Markten) in the Netherlands, Comisión Nacional del Mercado de Valores (Securities Market Commission) in Spain and the Finansinspektionen (Financial Supervisory Authority) in Sweden. Copies of the prospectus and related regulatory documentation, including annual reports, can be obtained in France from HSBC France, 103, Avenue des Champs Elysées, 75008 Paris, in Germany from HSBC Trinkhaus & Burkhardt, AG, Konsortialgeschäft, Königsallee 21/23, 40212 Düsseldorf and in the Netherlands from AMN Amro Bank (Nederland) N.V. (t) +31 20 527 2467 or faxed request to +31 20 527 1928. Investors in other countries can obtain the prospectus from www.etfsecurities.com. Please contact ETFS UK at +44 20 7448 4330 or info@etfsecurities.com for more information.

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