

## ETFs Physically-backed Industrial Metal ETCs – Counterparty Risk Explained

### About Physically-backed ETCs

ETFs Physically-backed Industrial Metal ETCs are designed to offer investors a simple, cost-efficient and secure way to gain exposure to the industrial metals market.

The ETFs Physically-backed Industrial Metal ETC platform provides access to the following metals:

<b>Copper</b>	<b>Tin</b>
<b>Nickel</b>	<b>Zinc</b>
<b>Lead</b>	<b>Aluminium</b>

ETFs Physically-backed Industrial Metal ETCs are backed by physical metal stored in London Metal Exchange (LME) approved warehouses around the world and evidenced by LME warrants and sometimes by Warehouse Receipts.

All physical industrial metal meets the LME Specifications.

ETFs Physically-backed Industrial Metal ETCs are transferable securities that can be created or redeemed on demand (by Authorised Participants). All other investors can buy and sell the ETCs on the London Stock Exchange and on Deutsche Börse's Xetra trading platform where they are traded like equities.

ETFs Physically-backed Industrial Metal ETCs are traded on the London Stock Exchange in USD and ETFs Physical Copper is traded on Deutsche Börse's Xetra trading platform in Euro.

### Who is the Issuer?

ETFs Physically-backed Industrial Metal ETCs are issued by ETFs Industrial Metal Securities Limited (the "Issuer"). The Issuer is a special purpose vehicle (SPV) established to issue the ETFs Physically-backed Industrial Metal ETCs.

### What would happen in the event the Metal Agent and ETFs were to go bankrupt?

Deutsche Bank AG, London Branch (the "Metal Agent") acts as Metal Agent for the Issuer including providing custody services in respect of any Warehouse Receipts the Issuer may hold.

The LME Warrants of the Issuer are held by the Depository of the LME and the Issuer's ownership of those warrants is recorded in the Issuer's LMESword Account. The Issuer's rights to the LME Warrants are not affected by the solvency of the Metal Agent.

Any Warehouse Receipts of the Issuer are held in a secure vault of the Metal Agent and recorded in the books and records of the Metal Agent as belonging to the Issuer. In the event of the insolvency of the Metal Agent the Issuer should be able to take control of those Warehouse Receipts.

In the event of the insolvency of any other entity within the ETF Securities there should be no impact on the value of the ETCs.

The assets of the Issuer attributable to a particular class of security of the Issuer are ring-fenced from the assets of the other classes of securities of the Issuer.

### Is there any credit risk?

These ETCs are backed by holdings of physical industrial metal evidenced by LME Warrants and sometimes by Warehouse Receipts, so credit risk is minimised. In the infrequent circumstance that the ETFs Physically-backed Industrial Metal ETCs are not 100% backed by physical metal (eg: if required to submit to Lending Guidance by the LME) the exposure will be backed by cash collateral. Cash held by the Issuer will be subject to the credit risk if the relevant financial institution maintaining the accounts (which is marked to market daily).

### Is the Metal insured?

Yes. LME warehouses are required by the LME to maintain a minimum level of insurance covering a range of risks. The Issuer has also taken out additional insurance to cover its physical metal holdings.

### How is this product regulated?

The Issuer is regulated by the Jersey Financial Services Commission (JFSC) and has its own LMEsword account so will therefore also come under rules and guidelines of the London Metal Exchange.

The prospectus of the Issuer has been approved by the UK Listing Authority (the Financial Services Authority).

### Where is the metal held?

The metal is stored in LME approved warehouses, which are not owned by the LME, but are supervised and audited by the LME. The LME rules only allow a Warrant to be issued in respect of LME specification metal held in LME approved warehouses. The LME conducts regular audits of LME warehouses and their holdings.

There is a Daily Warrant List (available at [http://www.etfsecurities.com/en/securities/etfs\\_physical\\_exposure.asp#bars](http://www.etfsecurities.com/en/securities/etfs_physical_exposure.asp#bars)) to show the exact LME Warrants held by the Issuer.

### What is the role of the Trustee?

The Trustee is The Law Debenture Trust Corporation p.l.c The Trustee acts to protect the interests of Security holders and ensure that the Issuer complies with the conditions of issue of the ETFs Physically-backed Industrial Metal Securities.

The Trustee holds all rights and entitlement under the Trust instrument on trust for the Security Holders for all types of ETFs Physically-backed Industrial Metal Securities.

### Can I take physical possession of the metal?

Authorised Participants (APs) can deliver or receive physical industrial metal evidenced by LME warrants in exchange for the ETFs Physically Backed Industrial Metal. Other investors may only redeem securities directly with the Issuer if there are no APs and will only receive their redemption proceeds in US Dollars.

For further details, please refer to prospectus available at [www.etfsecurities.com](http://www.etfsecurities.com)

## How do ETFS Physically backed Industrial Metal ETCs compare with warehouse metal?

	ETFS Physically backed Industrial Metal ETCs	Warehouse Metal
<b>Credit risk</b>	Limited	Limited
<b>Listed</b>	Yes	No
<b>Trade at NAV</b>	Yes	Not applicable
<b>Insurance</b>	Yes	Depends on own arrangement
<b>Quality</b>	All physical metal conforms with LME standards	Quality varies greatly
<b>Trade in brokerage account</b>	Yes	No
<b>UCITS eligible</b>	Yes	No
<b>VAT</b>	No	Possibly yes
<b>Simple &amp; cost-efficient</b>	Yes	Requires logistics of moving and storing
<b>Liquid</b>	Yes, Exchange traded & all physical metal conforms with LME standards,	No

## Physically backed Industrial Metal ETCs

Physically-backed Industrial Metal ETCs are listed on the London Stock Exchange (LSE):

	Base Currency	MER	Insurance Allowance per month	Storage Fee (Annual rental Fee/Price as at 10/07/11)*	LSE Ticker	Bloomberg	Reuters
<b>ETFS Physical Copper</b>	USD	0.69%	0.01%	1.36% p.a.	PHCU	PHCU LN <Eq>	PHCU.L
<b>ETFS Physical Nickel</b>	USD	0.69%	0.01%	0.69% p.a.	PHNI	PHNI LN <Eq>	PHNI.L
<b>ETFS Physical Tin</b>	USD	0.69%	0.01%	0.57% p.a.	PHSN	PHSN LN <Eq>	PHSN.L
<b>ETFS Physical Lead</b>	USD	0.69%	0.01%	4.98% p.a.	PHPB	PHPB LN <Eq>	PHPB.L
<b>ETFS Physical Aluminium</b>	USD	0.69%	0.01%	5.97% p.a.	PHAL	PHAL LN <Eq>	PHALA.L
<b>ETFS Physical Zinc</b>	USD	0.69%	0.01%	5.95% p.a.	PHZN	PHZN LN <Eq>	PHZN.L

ETFS Physical Copper is also listed on the Deutsche Börse's Xetra trading platform (00F1)

	Base Currency	MER	Insurance Allowance per month	Storage Fee (Annual rental Fee/Price as at 10/07/11)*	Xetra Ticker	Bloomberg	Reuters
<b>ETFS Physical Copper</b>	USD	0.69%	0.01%	1.36% p.a.	00F1	00F1 GY <Eq>	00F1.F

\* Please contact ETF Securities directly for the daily storage fee (expressed as a percentage of the metals Entitlement per annum) as it will vary each day with movements in the LME Cash Settlement Price.

## For more information

### About ETF Securities

Web: [www.etfsecurities.com](http://www.etfsecurities.com)  
 Email: [info@etfsecurities.com](mailto:info@etfsecurities.com)  
 Tel: +44 20 7448 4330

### Other sources of information

[www.londonstockexchange.com/etcs](http://www.londonstockexchange.com/etcs)  
[www.deutsche-boerse.com](http://www.deutsche-boerse.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 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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#### **Risk Warnings**

Securities issued by the Issuer are complex, structured products involving a significant degree of risk and are not suitable for all types of investor. Securities offered by the Issuer are aimed at sophisticated, professional and institutional investors. Any decision to invest should be based on the information contained in the prospectuses of the Issuer (or any supplements thereto) which includes, inter alia, information on certain risks associated with an investment. The price of any securities may go up or down and an investor may not get back the amount invested. Securities are priced in US Dollars and the value of the investment in other currencies will be affected by exchange rate movements. Investments in the securities of the Issuer which provide a short and/or leveraged exposure are only suitable for sophisticated, professional and institutional investors who understand leveraged and compounded daily returns and are willing to magnify potential losses by comparison to investments which do not incorporate these strategies. Over periods of greater than one day, investments with a short and/or leveraged exposure do not necessarily provide investors with a return equivalent to a return from the unleveraged long or unleveraged short investments multiplied by the relevant leverage factor. 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 prospectuses of the Issuer may be obtained from [www.etfsecurities.com](http://www.etfsecurities.com). Please contact ETFS UK at +44 20 7448 4330 or [info@etfsecurities.com](mailto: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 prospectuses of the Issuer have been drawn up in accordance with Directive 2003/71/EC:

The prospectuses of the Issuer have been passported from the United Kingdom into Denmark, France, Germany, Italy, the Netherlands, Spain and Sweden and have 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 prospectuses 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 prospectuses from [www.etfsecurities.com](http://www.etfsecurities.com). Please contact ETFS UK at +44 20 7448 4330 or [info@etfsecurities.com](mailto:info@etfsecurities.com) for more information.

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