

## ETFs Commodity Securities Ltd (CSL) ETCs – Counterparty Risk Explained

### About CSL ETCs

Exchange Traded Commodities (ETCs) issued by ETFs Commodity Securities Limited (CSL or the Issuer) provide investors with a wide variety of investment strategies and offer long, forward, leveraged and short exposure to all commodity sectors including Energy, Precious & Industrial Metals, Agriculture and Livestock.

ETCs issued by CSL 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 CSL track the DJ-UBSCI<sup>SM</sup> & DJ-UBSCI-F3<sup>SM</sup> suites of commodity indices.

ETCs issued by CSL are traded in 4 currencies (USD, EUR, GBP and JPY) and are listed on 5 major European Exchanges and the Tokyo Stock Exchange.

### Who is the Issuer?

The Issuer is a special purpose vehicle (SPV) specifically created to issue 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 commodity exposure?

ETCs issued by CSL are backed by matching funded Commodity Contracts purchased from a Commodity Contract Counterparty – currently either UBS AG or Merrill Lynch Commodities Inc.

Each Commodity Contract Counterparty will post collateral on a daily basis equal in value to the Issuer’s outstanding exposure to that counterparty (determined by reference to Commodity Contracts outstanding as at the previous day’s close).

### What happens upon the bankruptcy of a Commodity Contract Counterparty, the Issuer or ETF Securities?

In the event a Commodity Contract Counterparty were to go bankrupt or to otherwise default, CSL will take control of the collateral posted by the defaulting 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?

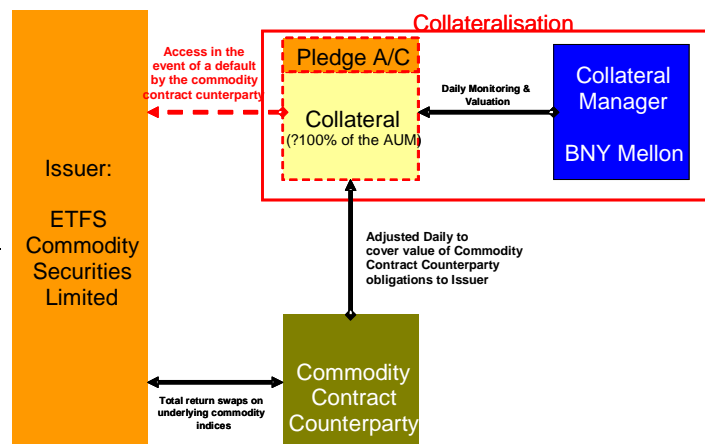
Each Commodity Contract Counterparty posts collateral on a daily basis into a separate pledge account in their name held with The Bank of New York Mellon (BNY). A separate account has been established for each Commodity Contract Counterparty and each account is monitored and valued daily by BNYM.

Specific eligibility requirements have been set for all collateral to be posted and if any collateral fail to meet these requirements it will be excluded for valuation purposes. The eligibility and value of all collateral held in the pledge accounts is monitored daily and details of the eligibility criteria for collateral are set out in each of the prospectuses of the Issuer.

Commodity Contract Counterparties can only post collateral into the pledge accounts—withdrawals of excess collateral from the pledge accounts can only be performed by BNYM.

In the event that a Commodity Contract Counterparty were to default on its obligations, CSL (on behalf of investors) may serve notice to take ownership of the eligible collateral in the relevant account and realize the market value of such collateral. There is no guarantee that the cash received from realizing such collateral will be sufficient to cover the amounts owed by the defaulting Commodity Contract Counterparty.

Details of eligible collateral held in each pledge account is available at:  
[http://www.etfsecurities.com/en/securities/etfs\\_collateral.asp](http://www.etfsecurities.com/en/securities/etfs_collateral.asp)



### How do ETFs’ CSL ETCs compare with Certificates and Structured Products?

	ETFs CSL ETCs	Certificates, Structured Products
<b>Collateralised</b>	Yes	No
<b>Credit Risk</b>	Collateralised by more than one counterparty	Bank (issuer) credit risk – only one counterparty
<b>Liquidity</b>	Multiple market makers, narrow spreads	Single market maker, wide spreads
<b>Structure</b>	Pure exposure, no embedded derivatives	Most use embedded derivatives
<b>Cost</b>	Transparent, low, interest is capitalised (Total Return)	Hidden, can be high, may not pay interest yield



## For more information

### About ETF Securities

Web: [www.etfsecurities.com](http://www.etfsecurities.com)  
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### Other sources of information

[www.londonstockexchange.com/etcs](http://www.londonstockexchange.com/etcs)  
[www.deutsche-boerse.com/etcs](http://www.deutsche-boerse.com/etcs)  
[www.euronext.com/etcs](http://www.euronext.com/etcs)  
[www.borsaitaliana.it/etf](http://www.borsaitaliana.it/etf)  
[www.asx.com.au](http://www.asx.com.au)

## 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 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.

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