

## ETFS Physically-backed ETCs – Counterparty Risk Explained

### About Physically-backed ETCs

ETFS Physically-backed ETCs are designed to offer investors a simple, cost-efficient and secure way to access the precious metals market and provide investors with a return equivalent to movements in the precious metal spot price less fees.

ETFS Physically-backed ETCs provide access to the following precious metals:

- Gold
- Platinum
- Precious Metals Basket
- Silver
- Palladium

ETFS Physically-backed ETCs are backed by physical allocated metal held by a Custodian. All physical gold held with Custodians conforms to the London Bullion Market Association's (LBMA) rules for Good Delivery.

ETFS Physically-backed ETCs 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 similar to an Exchange Traded Fund (ETF).

### Who are the Issuers?

ETFS Metal Securities Limited (MSL) and Gold Bullion Securities Limited (GBS) are Issuers of ETFS Physically-backed ETCs. Each Issuer is a special purpose vehicles (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. Each Issuer itself is ring-fenced from the rest of the ETF Securities group. The Issuers are regulated by the Jersey Financial Services Commission (JFSC).

### What happens upon the bankruptcy of a Custodian, the Issuer or ETF Securities?

In the event a Custodian were to go bankrupt, the Issuer (with the consent of the Trustee) would have a right to reclaim the metal from the Custodian's administrator or liquidator.

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.

### Is there any credit risk?

There is no credit risk; physically-backed ETCs issued by MSL, MSAL and GBS are backed by allocated metal in a vault.

### Who holds the metal?

The bullion is held by the Custodian, HSBC (member and chair of the London Bullion Market Association (LBMA)) in its London or Zurich vaults. In the case of ETFS Physical Swiss Gold, the metal is held in custody by JPMorgan Chase Bank, N.A. through UBS AG, Zurich as Zurich Sub-Custodian pursuant to Custodian Agreements between JPMorgan Chase, the Issuer and the Trustee.

The bullion is held in physically segregated (allocated) form, in uniquely identifiable bars (unique identifiers updated regularly on [www.etfsecurities.com](http://www.etfsecurities.com)). Holdings are identified in a weight list of bars showing the unique bar number and the bullion specifications.

- All bullion must conform to LBMA or LPPM "Good Delivery" standards
- ETCs cannot be issued until the bullion is delivered to the Custodian's vault
- Each Custodian's vault is independently audited twice a year by an external auditor, BSI Inspectorate and randomly by the Custodian's internal audit

### What is the role of the Trustee?

The Trustee is The Law Debenture Trust Corporation p.l.c.

The Trustee acts on behalf of security holders of each Issuer, approves all withdrawals of bullion held by the relevant Custodian and, with respect to each Issuer, holds all rights and entitlement to the metal and all rights of the Issuer under the custodian agreements on trust for the security holders.

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

Both Authorised Participants and Security Holders may physically redeem ETCs issued by GBS. In order to take physical possession of the metal, a Security Holder must have access to an unallocated account with a bullion dealer in London who is a member of the LBMA.

In ordinary circumstances, only Authorised Participants may physically redeem ETCs issued by MSL.

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

### How do ETFS Physically-backed ETCs compare with metal?

	ETFS Physically backed ETCs	Bullion
<b>Credit risk</b>	No - allocated metal	Yes, unless allocated metal
<b>Listed</b>	Yes	No
<b>Trade at NAV</b>	Yes	No. Discount / Premium
<b>Storage &amp; insurance</b>	Included in the management fee.	Storage & Insurance costs are additional
<b>Quality</b>	All bars conforms with LBMA/LPPM standards	Quality of non-LBMA/LPPM bars to be checked
<b>Trade in brokerage account</b>	Yes	No
<b>UCITS eligible</b>	Yes	No
<b>VAT</b>	No	Yes, if buying retail
<b>Simple &amp; cost-efficient</b>	Yes	No
	Yes. Exchange traded & all bars conforms with	May be less liquid than ETCs. as non LBMA/LPPM

## Physically-backed

Physically-backed ETCs issued by MSL and GBS are listed on 6 exchanges (London, Frankfurt, Amsterdam, Paris, Milan and Tokyo) and available in 4 currencies (USD, EUR, GBP and JPY).

	Base Currency	MER	LSE Ticker	Bloomberg	Reuters
<b>Gold Bullion Securities</b>	USD	0.40%	GBS	GBS LN <Eq>	GBSX.L
<b>ETFS Physical Gold**</b>	USD	0.39%	PHAU	PHAU LN <Eq>	PHAU.L
<b>ETFS Physical Swiss Gold**</b>	USD	0.39%	SGBS	SGBS LN <Eq>	SGBS.L
<b>ETFS Physical Silver**</b>	USD	0.49%	PHAG	PHAG LN <Eq>	PHAG.L
<b>ETFS Physical Palladium**</b>	USD	0.49%	PHPD	PHPD LN <Eq>	PHPD.L
<b>ETFS Physical Platinum**</b>	USD	0.49%	PHPT	PHPT LN <Eq>	PHPT.L
<b>ETFS Physical PM Basket**</b>	USD	*0.45%	PHPM	PHPM LN <Eq>	PHPM.L

\* Fee is a weighted average of the four constituent Metal Securities included in the PM Basket, as at 31st March 11

\*\* ETFS physically backed precious metals platform is Shariah compliant

## 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/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.

## **Important Information**

### **General**

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### **Risk Warnings**

Securities issued by CSL, and OSL are complex, structured products involving a significant degree of risk and are not suitable for all types of investor. Securities offered by the Issuers are aimed at sophisticated, professional and institutional investors. Any decision to invest should be based on the information contained in the prospectus (and any supplements thereto) of the relevant Issuer 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 may be priced in US Dollars, Euros, or Sterling, and the value of the investment in other currencies will be affected by exchange rate movements. Investments in the securities of the Issuers 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 Issuers.

The relevant prospectus for each 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**

**General:** The FSA has delivered to the regulators listed below certificates of approval attesting that the prospectuses of the Issuers indicated have been drawn up in accordance with Directive 2003/71/EC.

**For German and Italian Investors:** The prospectuses (and any supplements thereto) for each of the Issuers have been passported from the United Kingdom into Germany and Italy and have been filed with the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) in Germany and CONSOB and the Bank of Italy in Italy. Copies of prospectuses (and any supplements thereto) and related regulatory documentation, including annual reports, can be obtained in Germany from HSBC Trinkhaus & Burkhardt, AG, Konsortialgeschäft, Königsallee 21/23, 40212 Düsseldorf. The prospectuses (and any supplements thereto) for each of the Issuers may be distributed to investors in Germany and Italy.

**This document is not a financial analysis pursuant to Section 34b of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and consequently does not meet all legal requirements to warrant the objectivity of a financial analysis and is also not subject to the ban on trading prior to the publication of a financial analysis.**

**For French and Dutch investors:** The prospectuses (and any supplements thereto) for each of the Issuers (other than IML) have been passported from the United Kingdom into the Netherlands and France and have been filed with l'Autorité des Marchés Financiers (AMF) in France and the Authority Financial Markets (Autoriteit Financiële Markten) in the Netherlands. Copies of prospectuses (and any supplements thereto) and related regulatory documentation, including annual reports, can be obtained in the Netherlands from ABN AMRO Bank (Nederland) N.V. (t) +31 20 527 2467 or faxed request to +31 20 527 1928 and in France can be obtained from HSBC France, 103, Avenue des Champs Elysées, 75008 Paris. The prospectuses (and any supplements thereto) for these entities may be distributed to investors in the Netherlands and France.

This document is not addressed to or intended directly or indirectly, to (a) any persons who do not qualify as qualified investors (gekwalificeerde beleggers) within the meaning of section 1:1 of the Dutch Financial Supervision Act as amended from time to time; and/or (b) in circumstances where other exemptions or dispensations from the prohibition the Dutch Financial Supervision Act or the Exemption Regulation of the Act on Financial Supervision apply.

None of the Issuers is required to have a license pursuant to the Dutch Financial Supervision Act as it is exempt from any licensing requirements and is not regulated by the Netherlands Authority for the Financial Markets and consequently no prudential and conduct of business supervision will be exercised.

**For Danish, Swedish and Spanish Investors:** The prospectuses (and any supplements thereto) for each of CSL, IML, MSL have been passported from the United Kingdom into Denmark, Spain, Sweden and have been filed with Finanstilsynet (Financial Supervisory Authority) in Denmark, Comisión Nacional del Mercado de Valores (Securities Market Commission) in Spain and the Finansinspektionen (Financial Supervisory Authority) in Sweden. The prospectuses (and any supplements thereto) for these entities may be distributed to investors in Spain, Denmark and Sweden.

**For Belgian Investors:** The prospectus (and any supplements thereto) for GBS has been passported from the United Kingdom into Belgium and has been filed with the Commission Bancair, Financière et des Assurances in Belgium. The prospectus (and any supplements thereto) for GBS may be distributed to investors in Belgium.

Other than as set out above investors may contact ETFs UK at +44 (0)20 7448 4330 or at [info@etfsecurities.com](mailto:info@etfsecurities.com) to obtain copies of prospectuses and related regulatory documentation, including annual reports. Other than as separately indicated, this communication is being made on a "private placement" basis and is intended solely for the professional / institutional recipient to which it is delivered.

### **Third Parties**

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