

**ETFS COMMODITY SECURITIES LIMITED**

**Registered No: 90959**

**Report and Financial Statements for the  
Year ended 31 December 2013**

**ETFS COMMODITY SECURITIES LIMITED**

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# ETFS COMMODITY SECURITIES LIMITED

## MANAGEMENT AND ADMINISTRATION

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### Directors

Mr Graham J Tuckwell – Chairman  
Mr Graeme D Ross  
Mr Mark Weeks  
Mr Joseph L Roxburgh

### Administrator and Company Secretary

R&H Fund Services (Jersey) Limited  
Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

### Registered Office

Ordnance House  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

### Registrar

Computershare Investor Services (Jersey) Limited  
Queensway House  
Hilgrove Street  
St Helier  
Jersey, JE1 1ES

### Manager

ETFS Management Company (Jersey) Limited  
Ordnance House  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

### Trustee

The Law Debenture Trust Corporation plc  
Fifth Floor  
100 Wood Street  
London, EC2V 7EX  
United Kingdom

### Commodity Contract Counterparty

Merrill Lynch Commodities, Inc  
20 East Greenway Plaza  
Suite 700  
Houston, Texas 77046-2006  
United States

### Commodity Contract Counterparty

UBS Securities LLC  
PO Box 120305  
677 Washington Boulevard  
Stamford, Connecticut 06901-3707  
United States

### Auditor

Deloitte LLP  
Lord Coutanche House  
66-68 Esplanade  
St Helier  
Jersey, JE4 8WA

### Jersey Legal Advisers

Mourant Ozannes  
22 Grenville Street  
St Helier  
Jersey, JE4 8PX

# ETFS COMMODITY SECURITIES LIMITED

## DIRECTORS' REPORT

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The directors of ETFS Commodity Securities Limited ("CSL" or the "Company") submit herewith the annual report and financial statements of the Company for the year ended 31 December 2013.

### Directors

The names and particulars of the directors of the Company during and since the end of the financial year are:

Mr Graham J Tuckwell - Chairman

Mr Graeme D Ross

Mr Joseph L Roxburgh

Mr Craig A Stewart (resigned 21 June 2013)

Mr Mark K Weeks (appointed 21 June 2013)

### Directors' Interests

The following table sets out the only director's interests in Ordinary Shares as at the date of this report:

<u>Director</u>	<u>Ordinary Shares of Nil Par Value</u>
Graham J Tuckwell (as controlling party of ETF Securities Limited ("ETFSL"))	2

### Principal Activities

The Company's principal activity is the listing and issue of commodity securities ("Commodity Securities"). The Company's portfolio of Commodity Securities includes Classic, Forward, Short and Leveraged Commodity Securities. The Company earns management fees and a licence allowance based upon the number of Commodity Securities in issue. These fees are expressed as an annual percentage, calculated on a daily basis and reflected in the Net Asset Value ("NAV") of the securities on a daily basis, and paid monthly in arrears.

Commodity Securities are financial instruments designed to track the price of commodity futures, and give investors an exposure similar to that which could be achieved by managing a fully cash-collateralised position in near-term futures contracts. However, unlike managing a futures position, Commodity Securities involve no need to roll from one futures contract to another, no margin calls, and no other brokerage or other costs in holding or rolling futures contracts (although Security Holders incur costs in holding Commodity Securities). No trading or management of futures contracts is required by the Company.

Commodity Securities are backed by commodity contracts ("Commodity Contracts") with terms corresponding to the terms of Commodity Securities. Each time Commodity Securities are issued or redeemed, matching Commodity Contracts between the Company and a Commodity Contract counterparty are created or cancelled by the Company. The Company has entered into two Facility Agreements, one with UBS Securities LLC ("UBS"), and one with Merrill Lynch Commodities, Inc ("Merrill Lynch") its Commodity Contract counterparties, enabling the Company to create and cancel Commodity Contracts on an ongoing basis.

The Company has entered into a service agreement with ETFS Management Company (Jersey) Limited ("ManJer"), whereby ManJer is responsible for advisory or consultancy services required by the Company, including advertising and all costs relating to the listing and issuance of securities. In return for these services, the Company pays ManJer an amount equal to the management fee and the creation and redemption fees. As a result, amounts in respect of the management fee and creation and redemption fees are transferred directly to ManJer and there are no cash flows through the Company.

## ETFS COMMODITY SECURITIES LIMITED

### DIRECTORS' REPORT (CONTINUED)

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#### Review of Operations

During the year, the Company had the following number of classes, in aggregate, of Commodity Securities in issue and admitted to trading on the following exchanges:

Security	London Stock Exchange	Borsa Italia	Deutsche Börse	NYSE- Euronext Paris	Tokyo Stock Exchange
Classic Commodity Securities	38	31	31	9	14
Forward Commodity Securities	15	4	11	-	-
Short Commodity Securities	34	34	28	-	-
Leveraged Commodity Securities	34	34	28	-	-
Total Commodity Securities	121	103	98	9	14

As at 31 December 2013, the fair value of assets under management amounted to USD 3,389.7 million (2012: USD 4,317.9 million). The Company recognises its financial assets (Commodity Contracts) and financial liabilities (Commodity Securities) at fair value in the Statement of Financial Position.

During the year, the Company generated income from creation and redemption fees, management fees and licence allowance as follows:

	2013 USD	2012 USD
Creation and Redemption Fees	373,092	425,061
Management Fees and Licence Allowance	26,683,394	28,798,237
Total Fee Income	27,056,486	29,223,298

Under the terms of the service agreement with ManJer, the Company accrued expenses equal to the management fees and licence allowance and creation and redemptions fees, which, after taking into account other operating income and expenses, resulted in an operating result for the year of USD Nil (2012: USD Nil).

The gain or loss on Commodity Securities and Commodity Contracts is recognised in the Statement of Profit or Loss and Other Comprehensive Income in line with the Company's accounting policy.

The Company adopted IFRS 13 during the year ended 31 December 2013. IFRS 13 requires the Company to utilise the available market price for the Commodity Securities as quoted on the open market.

The Company's rights in respect of Commodity Contracts relates to its contractual obligations to trade with certain counterparties at set prices on each trading day. These prices are based on an agreed formula published in the prospectus, and are equal to the published net asset value ("NAV") of each class of Commodity Security.

As a result of the difference in valuation methodology between Commodity Contracts and Commodity Securities there is a mis-match between accounting values, and the results of the Company reflect a gain or loss on the difference between the agreed formula price of the Commodity Contracts and the market price of Commodity Securities. This gain or loss would be reversed on a subsequent redemption of the Commodity Securities and cancellation of the equivalent Commodity Contracts. This is presented in more details in note 8 to these financial statements.

The Company's exposure to risk is discussed in note 12 to the financial statements.

#### Future Developments

The board of directors (the "board") are not aware of any developments that might have a significant effect on the operations of the Company in subsequent financial periods not already disclosed in this report or the attached financial statements.

## ETFS COMMODITY SECURITIES LIMITED

### DIRECTORS' REPORT (CONTINUED)

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#### Country and Currency Risk

The directors do not consider the Company to have a significant exposure to risk relating to country and currency risk arising from the current economic uncertainties facing a number of countries around the world.

Each Commodity Security is a debt instrument whose redemption price is linked directly to the price of the relevant underlying commodity. The Commodity Securities are issued under limited recourse arrangements whereby the holders have recourse only to the value of the Commodity Contracts and not to the Company. In addition, since any such price movements are wholly attributable to the Commodity Security holders, the Company has no residual exposure to price movements of the Commodity Contracts. From a commercial perspective the gains or losses on the liability represented by the Commodity Securities are matched economically by losses or gains attributable to the Commodity Contracts (see detail above regarding the accounting mis-match). The Company does not retain any net gains or losses or net risk exposures. Further details surrounding the value of Commodity Securities and the Commodity Contracts are disclosed in note 12.

Movements in the price of the underlying commodity, and thus the value of the Commodity Securities, may vary widely which could have an impact on the demand for the Commodity Securities issued by the Company. These movements are shown in notes 7 and 8.

#### Dividends

There were no dividends declared or paid in the year (2012: USD Nil). It is the Company's policy that dividends will only be declared when the directors are of the opinion that there are sufficient distributable reserves.

#### Employees

The Company does not have any employees. It is the Company's policy to use the services of specialist subcontractors or consultants as far as possible.

#### Directors' Remuneration

No director has a service contract with the Company and details of the directors' remuneration which has been paid by ManJer on behalf of the Company for the year is disclosed below.

	<b>2013 Fees</b>	<b>2012 Fees</b>
	<b>GBP</b>	<b>GBP</b>
Mr Graham J Tuckwell	Nil	Nil
Mr Graeme D Ross	7,500	7,500
Mr Craig A Stewart	3,750	7,500
Mr Thomas K Quigley	Nil	Nil
Mr Joseph L Roxburgh	Nil	Nil
Mr Mark K Weeks	Nil	Nil

#### Auditor

A resolution to reappoint Deloitte LLP as the auditor of the Company will be proposed at the next meeting of the directors.

## ETFS COMMODITY SECURITIES LIMITED

### DIRECTORS' REPORT (CONTINUED)

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#### Corporate Governance

There is no standard code of corporate governance in Jersey. The operations, as previously described in the directors' report, are such that the directors do not consider the Company is required to voluntarily apply the UK Corporate Governance Code.

As the board is small there is no nomination committee and appointments of new directors are considered by the board as a whole. The board does not consider it appropriate that directors should be appointed for a specific term. Furthermore the structure of the board is such that it is considered unnecessary to identify a senior non-executive director.

The constitution of the board is disclosed above. The directors are either members of the board of the ultimate parent company, ETFSL, employees within the ETFSL group or members of the board of the Company's Administrator, R&H Fund Services (Jersey) Limited, and will continue to have such a composition of directors beyond the next meeting of the directors.

The board of directors meets regularly to consider matters specifically reserved for its review. Further meetings will be held as required by the operations of the Company.

#### Internal Control

During the year the Company did not have any employees or subsidiaries, and there is no intention that this will change. The Company, being a special purpose company established for the purpose of issuing Commodity Securities, has not undertaken any business, save for issuing and redeeming Commodity Securities, entering into the documents and performing the obligations and exercising its rights in relation thereto, since its incorporation. The Company does not intend to undertake any business other than issuing and redeeming Commodity Securities and performing the obligations and exercising its rights in relation thereto.

The Company is dependent upon ManJer to provide management and administration services to it. ManJer is licensed under the Financial Services (Jersey) Law 1998 to conduct classes U, V and Z of Fund Services Business to conduct the regulated activities. ManJer was classified as a Managed Entity under Jersey regulation and was reliant upon R&H Fund Services (Jersey) Limited ("R&H"), a regulated service provider in Jersey, for the provision of additional management services under the Manager of a Managed Entity ("MoME") regime. The MoME Agreement between ManJer and R&H was terminated during the year ended 31 December 2013 such that ManJer is no longer reliant upon R&H for the provision of those additional management services. However ManJer continues to outsource the administration services in respect of the Company to R&H. Documented contractual arrangements are in place with the Manager and the Administrator which define the areas where the authority is delegated to them. The performance of the Manager and Administrator are reviewed on an ongoing basis by the board of the ultimate parent company, ETF Securities Limited, through their review of periodic reports and quarterly management accounts of the Company.

ManJer promotes and provides management and other services to both the Company and other companies issuing commodity based securities.

The board having reviewed the effectiveness of the internal control systems of the Manager and R&H, and having a regard to the role of its external auditor, does not consider that there is a need for the Company to establish its own internal audit function.

#### Audit Committee

The board has not established a separate audit committee; instead the board meets to consider the financial reporting by the Company, the internal controls, and relations with the external auditor. In addition the board reviews the independence and objectivity of the auditors.



**Joseph L Roxburgh**

Director

Jersey

18 March 2014

**ETFS COMMODITY SECURITIES LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



**Joseph L Roxburgh**  
Director  
18 March 2014



# ETFS COMMODITY SECURITIES LIMITED

## INDEPENDENT AUDITOR'S REPORT

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We have audited the financial statements of ETFS Commodity Securities Limited for the year ended 31 December 2013 which comprise the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as issued by the International Accounting Standards Board; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.



**Andrew Isham, BA, FCA**

For and on behalf of Deloitte LLP

Chartered Accountants and Recognized Auditor

St. Helier, Jersey

19 March 2014

**ETFS COMMODITY SECURITIES LIMITED**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Note	Year ended 31 December	
		2013 USD	2012 USD
<b>Revenue</b>	3	27,056,486	29,223,298
<b>Expenses</b>	3	(27,056,486)	(29,223,298)
<b>Operating Result</b>	3	-	-
Net Loss Arising on Contractual and Fair Value of Commodity Contracts	7	(571,848,919)	(184,922,303)
Net Gain Arising on Fair Value of Commodity Securities	8	547,694,471	184,922,303
<b>Result and Total Comprehensive Income for the Year</b>	7	(24,154,448)	-
<sup>1</sup> Adjustment from Market Value to Contractual Formula Price (as set out in the prospectus) of Commodity Securities	2	24,154,448	-
<b>Adjusted Result and Total Comprehensive Income for the Year</b>	8	-	-

The directors consider the Company's activities as continuing.

<sup>1</sup> The definition of non-statutory adjustments is set out on page 15. This represents the difference between the agreed formula price of the Commodity Contracts and the market price of Commodity Securities.

**ETFS COMMODITY SECURITIES LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

	Note	As at 31 December	
		2013	2012
		USD	USD
<b>Current Assets</b>			
Trade and Other Receivables	6	2,241,550	2,531,217
Commodity Contracts	7	3,389,700,130	4,317,870,439
Amounts Receivable on Commodity Contracts Awaiting Settlement	7	14,211,084	11,505,948
Amounts Receivable on Commodity Securities Awaiting Settlement	8	35,616,361	28,513,755
<b>Total Assets</b>		<b>3,441,769,125</b>	<b>4,360,421,359</b>
<b>Current Liabilities</b>			
Commodity Securities	8	3,413,854,578	4,317,870,439
Amounts Payable on Commodity Securities Awaiting Settlement	8	14,211,084	11,505,948
Amounts Payable on Commodity Contracts Awaiting Settlement	7	35,616,361	28,513,755
Trade and Other Payables	9	2,241,548	2,531,215
<b>Total Liabilities</b>		<b>3,465,923,571</b>	<b>4,360,421,357</b>
<b>Equity</b>			
Stated Capital	10	2	2
Revaluation Reserve		(24,154,448)	-
<b>Total Equity</b>		<b>(24,154,446)</b>	<b>2</b>
<b>Total Equity and Liabilities</b>		<b>3,441,769,125</b>	<b>4,360,421,359</b>

The financial statements on pages 8 to 24 were approved by the board of directors and signed on its behalf on 18 March 2014.



Joseph L Roxburgh  
 Director

**ETFS COMMODITY SECURITIES LIMITED**  
**STATEMENT OF CASH FLOWS**

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	<b>Year ended 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<b>USD</b>	<b>USD</b>
<b>Operating Result for the Year</b>	-	-
<i>Changes in Operating Assets and Liabilities</i>		
Decrease in Receivables	289,667	221,150
Decrease in Payables	(289,667)	(225,185)
Cash Generated from/(Used in) Operations	-	(4,035)
<i>Cash Flows from Financing Activities</i>		
Dividends Paid	-	-
Net Cash Used in Financing Activities	-	-
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>-</b>	<b>(4,035)</b>
Cash and Cash Equivalents at the Beginning of the Year	-	4,035
Net Decrease in Cash and Cash Equivalents	-	(4,035)
Cash and Cash Equivalents at the End of the Year	-	-

Commodity Securities are issued or redeemed by receipt/transfer of Commodity Contracts and have been netted off in the Statement of Cash Flows.

**ETFS COMMODITY SECURITIES LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

	Note	Stated Capital USD	Retained Earnings USD	Revaluation Reserve USD	Total Equity USD	Adjusted Total Equity USD
Opening Balance at 1 January 2012		2	-	-	2	2
Result and Total Comprehensive Income for the Year		-	-	-	-	-
Balance at 31 December 2012		<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>2</u>
Opening Balance at 1 January 2013		2	-	-	2	2
Result and Total Comprehensive Income for the Year		-	(24,154,448)	-	(24,154,448)	(24,154,448)
Transfer to Revaluation Reserve	8	-	24,154,448	(24,154,448)	-	-
<sup>2</sup> Adjustment from Market Value to Contractual Formula Price (as set out in the prospectus) of Commodity Securities	8	-	-	-	-	24,154,448
Balance at 31 December 2013		<u>2</u>	<u>-</u>	<u>(24,154,448)</u>	<u>(24,154,446)</u>	<u>2</u>

<sup>2</sup> The definition of non-statutory adjustments is set out on page 15. This represents the difference between the agreed formula price of the Commodity Contracts and the market price of Commodity Securities.

# ETFS COMMODITY SECURITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. General Information

ETFS Commodity Securities Limited (the “Company”) is a company incorporated in Jersey. The address of the registered office is Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW.

The ETF Securities Group, of which the Company is a part, specialises in the development and issuance of Exchange Traded Products (“ETPs”). ETPs are transparent securities designed to ensure the price of the securities issued tracks the net asset value of the underlying commodity, index or currency while providing market liquidity for the investor.

The purpose of the Company is to provide a vehicle that permits trading of the Commodity Securities, not to make gains from trading in the underlying Commodity Contracts themselves. The Securities are issued under limited recourse arrangements whereby the Company has no residual exposure to price movements of the underlying assets, therefore from a commercial perspective gains and losses in respect of Commodity Contracts will always be offset by an equal and opposite loss or gain on the Commodity Securities. Further details regarding the risks of the Company are disclosed in note 12.

ETPs typically are not actively managed, are significantly lower in cost when compared to actively managed mutual funds and are easily accessible to investors. No trading or management of futures contracts is required of the Company because the Company has entered into arrangements to acquire an equivalent asset exposure to the underlying assets from a third party which fully hedges the exposure of the Company.

The Company is entitled to:

- (1) management and licence fees which are calculated by applying a fixed percentage to the market value of debt securities in issue on a daily basis (according to each Security prospectus); and
- (2) creation and redemption fees on the issue and redemption of the securities.

No management and licence fees, nor creation and redemption fees are payable when investors trade in the Securities on a listed market such as the London Stock Exchange.

The Company has entered into a service agreement with ETFS Management Company (Jersey) Limited (“ManJer”), whereby ManJer is responsible for advisory or consultancy services required by the Company, including advertising and all costs relating to the listing and issuance of securities. In return for these services, the Company pays ManJer an amount equal to the Management Fee charge levied by the Company on the Commodity Securities in issue and the Creation and Redemption Fees. As a result there are no operating profits or losses recognised through the Company.

### 2. Accounting Policies

The main accounting policies of the Company are described below.

#### Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The presentation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The only key accounting judgement required to prepare these financial statements is in respect of the valuation of Commodity Contracts and Commodity Securities held at fair value through profit or loss as disclosed in notes 7 and 8. Actual results could vary from these estimates.

2. Accounting Policies (continued)

Accounting Standards

(a) *Standards, amendments and interpretations effective on 1 January 2013:*

The following new and revised Standards and Interpretations have been adopted in the current year which may have affected these financial statements. Details of other Standards and Interpretations adopted that have had no effect on these financial statements are set out in section (b).

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether the price is directly observable or estimated using another valuation technique. The impact of adoption of IFRS 13 has been described below.

The Company's liability in respect of Commodity Securities relates to its contractual obligations to trade with certain counterparties at set prices on each trading day. These prices are based on an agreed formula as set out in the prospectus, and are equal to the published NAVs of each class of Commodity Security. Therefore, historically the Commodity Securities were classified as level 2 financial liabilities, as the Company's liability was calculated using third party pricing sources supported by observable, verifiable inputs. Through the adoption of IFRS 13, the Company must utilise the available market price as the Commodity Securities are quoted on the open market. As a result the Commodity Securities were reclassified from Level 2 into Level 1.

In addition, the disclosure requirements in IFRS 13 are more extensive than those previously required, and include more detailed quantitative and qualitative disclosures based on the three-level fair value hierarchy covering all assets and liabilities within its scope. See note 8 for further details.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories:

- a) items that will not be reclassified subsequently to profit or loss; and
- b) items that will be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments also introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1 the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'.

**ETFS HEDGED COMMODITY SECURITIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**2. Accounting Policies (continued)**

**Accounting Standards (continued)**

(b) *Standards, amendments and interpretations effective on 1 January 2013 but not relevant to the Company during the period:*

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 (as revised in 2011) Separate Financial Statements
- IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures
- Amendments to IFRS 10 Consolidated Financial Statements
- Amendments to IFRS 12 Disclosure of Interests in Other Entities
- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Amendments to IFRS 11 (Joint Arrangements)
- IAS 19 (as revised in 2011) Employee Benefits
- Amendments to IAS 16 Property, Plant and Equipment issued as part of the annual improvements to IFRSs issued in 2009 – 2011
- Amendments to IAS 32 Financial Instruments: Presentation issued as part of the annual improvements to IFRSs issued in 2009 – 2011
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

(c) *Standards, amendments and interpretations that are in issue but not yet effective:*

The Company has not adopted the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 Financial Instruments (as amended in 2009)
- IFRS 9 Financial Instruments (as amended in 2010)
- IFRS 9 Financial Instruments (as amended in 2013) (hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)
- Amendments to IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014)
- IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014)
- IAS 19 Employee Benefits - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014)
- Annual Improvements to IFRS (effective for annual periods beginning on or after 1 July 2014)
- IFRIC 21 Levies (effective for annual periods beginning on or after 1 January 2014)

The directors do not expect the adoption of the standards, amendments and interpretations that are in issue but not yet effective listed above will have a material impact on the financial statements of the Company in future periods. Beyond the information above it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

The directors have considered other standards and interpretations in issue but not effective and concluded that they would not have a material impact on the future financial periods when they become available.

**Going Concern**

The nature of the Company's business dictates that the outstanding Commodity Securities may be redeemed at any time by the holder and in certain circumstances may be redeemed by the Company. As the redemption of Commodity Securities will always coincide with the redemption of an equal amount of Commodity Contracts, no liquidity risk is considered to arise. All other liabilities of the Company are met by ManJer; therefore the directors consider the Company to be a going concern for the foreseeable future and have prepared the financial statements on this basis.



**2. Accounting Policies (continued)**

**Commodity Securities and Commodity Contracts**

i) Issuance and Redemption

The Company has entered into a facility agreement with UBS and Merrill Lynch to permit the Company to purchase and redeem Commodity Contracts at prices equivalent to Commodity Securities issued or redeemed on the same day. Each time a Commodity Security is issued or redeemed by the Company a matching number and value of Commodity Contracts are purchased or redeemed from UBS or Merrill Lynch. The Commodity Contracts represent financial assets of the Company and the Commodity Securities give rise to financial liabilities.

Financial assets and liabilities are recognised and de-recognised on the trade date.

When Commodity Contracts are redeemed from UBS and Merrill Lynch they are redeemed from the earliest Commodity Contract issued and then the next earliest contract until the redemption has been satisfied. This method is known as first in first out ("FIFO").

ii) Pricing

The Commodity Contracts are priced using the product of commodity indices published by Dow Jones & Company and a multiplier calculated by the Company and agreed with UBS and Merrill Lynch. The multiplier takes into account the daily accrual of the management fee and licence allowance as well as the incremental capital enhancement component of the Commodity Security, and is the same across all securities within the same class (i.e. all Classic Commodity Securities use the same multiplier).

The Commodity Securities have been valued using the market price as a result of the adoption of IFRS 13 during the year ended 31 December 2013. IFRS 13 requires the Company to utilise the available market price as the Commodity Securities are quoted on the open market. Consequently differences arising in the pricing of Commodity Securities are included in the statement of financial position and the statement of profit or loss and total comprehensive income in order to fair value the liability. The cumulative differences between the actual settlement value of the Commodity Securities and the fair value are presented as a non-statutory movement entitled 'Adjustment from Market Value to Contractual Formula Price (as set out in the prospectus) of Commodity Securities'.

As the adoption of IFRS 13 is not retrospective, the comparatives for the year ended 31 December 2012 have not been restated. In the year ended 31 December 2012 the Commodity Securities were priced using the product of commodity indices published by Dow Jones & Company and a multiplier calculated by the Company and agreed with UBS and Merrill Lynch, in accordance with IAS 39. This allowed gains and losses in respect of Contracts to be offset by an equal and opposite loss or gain on the Securities.

iii) Designation at fair value through Profit or Loss

Each Commodity Security and Commodity Contract comprises a financial instrument whose redemption price is linked directly to the price of the underlying Commodity on a one-to-one basis.

These instruments are designated at fair value through the profit or loss upon initial recognition. This is in order to eliminate a measurement mismatch enabling gains or losses on both the Commodity Security and Commodity Contract to be recorded in the Statement of Profit or Loss and Other Comprehensive Income.

**Commodity Contracts and Securities Awaiting Settlement**

The issue or redemption of Commodity Securities, and the purchase or sale of Commodity Contracts, is accounted for on the trade date ("T"). Where settlement pricing is applied, the trade will not settle until T+3. Where trades are awaiting settlement at the year end, the monetary amount due to be settled is separately disclosed within the relevant assets and liabilities on the Statement of Financial Position.

**2. Accounting Policies (continued)**

**Revenue Recognition**

Revenue is recognised to the extent that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty.

Fees received for the issue and redemption of securities are recognised at the date on which the transaction becomes legally binding. All other income and expenses are recognised on an accruals basis.

**Loans and Receivables**

The loans and receivables are non-derivative financial assets with a fixed payment amount and are not quoted in an active market. After initial measurement the loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Gains and losses on loans and receivables which are impaired are recognised immediately through profit or loss.

**Foreign Currency Translation**

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in United States Dollars, which is the functional currency of the Company, and the presentational currency of the financial statements.

Monetary assets and liabilities denominated in foreign currencies at the year end date are translated at rates ruling at that date. Creation and redemption fees are translated at the average rate for the quarter in which they are incurred. The resulting differences are accounted for through profit or loss.

**Segmental Reporting**

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company reports information on its operations for each of the Company's business segments only, as the Company only has one geographic segment which is the UK and Europe. The directors believe that each type of Commodity Security – Classic, Forward, Short and Leveraged – comprises a segment and results of each are disclosed separately in note 5.

**ETFS COMMODITY SECURITIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**3. Operating Result**

Operating result for the year comprised:

	<b>Year ended 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<b>USD</b>	<b>USD</b>
Management Fees	24,642,601	26,176,057
Licence Allowance	2,040,793	2,622,180
Creation and Redemption Fees	373,092	425,061
<b>Total Revenue</b>	<b>27,056,486</b>	<b>29,223,298</b>
Management Fees to ManJer	(27,056,486)	(28,992,247)
Creation and Redemption Fees Written Off	-	(231,054)
Net Finance Income	-	1
Net Foreign Exchange Gain	-	2
<b>Total Operating Expenses</b>	<b>(27,056,486)</b>	<b>(29,223,298)</b>
<b>Operating Result</b>	<b>-</b>	<b>-</b>

Audit fees for the year of GBP 24,000 will be met by ManJer (2012: GBP 24,000).

During the prior year the Company revised its agreements with a number of the Authorised Participants regarding the fees charge for the creation and redemption of securities. As a result of the revised agreements, certain creation and redemption fees were waived. The revised agreement backdated the charge, which meant that some of the historically charged creation and redemption fees were waived and written off.

**4. Taxation**

The Company is subject to Jersey Income Tax. The Jersey Income Tax rate for the foreseeable future is zero percent.

ETFS COMMODITY SECURITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Segmental Reporting

The Company has four separate types of Commodity Securities in issue – Classic, Forward, Short and Leveraged Securities. The Company earns revenues from each of these sources.

For the year ended 31 December 2013:

	Classic	Forward	Short	Leveraged	Central	Total
Management Fees	14,515,386	841,550	3,870,376	5,415,289	-	24,642,601
Licence Allowance	1,481,162	85,872	197,468	276,290	-	2,040,793
Creation and Redemption Fees	187,218	25,530	57,724	102,620	-	373,092
Total Revenue	<u>16,183,766</u>	<u>952,952</u>	<u>4,125,568</u>	<u>5,794,199</u>	-	<u>27,056,486</u>
Total Operating Expenses	<u>16,183,766</u>	<u>952,952</u>	<u>4,125,568</u>	<u>5,794,199</u>	-	<u>27,056,486</u>
<b>Segmental (Loss)/Profit</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

For the year ended 31 December 2012:

	Classic	Forward	Short	Leveraged	Central	Total
Management Fees	15,536,566	976,549	3,906,481	5,756,461	-	26,176,057
Licence Allowance	1,583,693	99,658	382,732	556,097	-	2,622,180
Creation and Redemption Fees	218,946	28,388	61,364	116,363	-	425,061
Total Revenue	<u>17,339,205</u>	<u>1,104,595</u>	<u>4,350,577</u>	<u>6,428,921</u>	-	<u>29,223,298</u>
Total Operating Expenses	<u>(17,339,207)</u>	<u>(1,104,595)</u>	<u>(4,350,577)</u>	<u>(6,428,922)</u>	3	<u>(29,223,298)</u>
<b>Segmental (Loss)/Profit</b>	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	3	<u>-</u>

Additional information relating to the assets and liabilities associated with these securities is disclosed in notes 7 and 8.

**ETFS COMMODITY SECURITIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6. Trade and Other Receivables**

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<b>USD</b>	<b>USD</b>
Management Fees and Licence Allowance	2,115,675	2,435,825
Creation and Redemption Fees	125,875	95,392
	<u>2,241,550</u>	<u>2,531,217</u>

**7. Commodity Contracts**

	<b>Change in Fair Value at 31 December 2013</b>	<b>Fair Value at 31 December 2013</b>
	<b>USD</b>	<b>USD</b>
Classic Commodity Contracts	(430,159,116)	2,444,174,990
Forward Commodity Contracts	(11,389,731)	140,236,475
Short Commodity Contracts	50,241,497	360,895,070
Leveraged Commodity Contracts	(180,541,569)	444,393,595
Total Commodity Contracts	<u>(571,848,919)</u>	<u>3,389,700,130</u>

  

	<b>Change in Fair Value at 31 December 2012</b>	<b>Fair Value at 31 December 2012</b>
	<b>USD</b>	<b>USD</b>
Classic Commodity Contracts	(73,643,569)	3,130,766,039
Forward Commodity Contracts	(5,751,079)	173,790,349
Short Commodity Contracts	(8,667,952)	316,580,319
Leveraged Commodity Contracts	(96,859,703)	696,733,732
Total Commodity Contracts	<u>(184,922,303)</u>	<u>4,317,870,439</u>

As at 31 December 2013, there were certain Commodity Contracts awaiting the creation or redemption of Securities with trade dates before the year end and settlement dates in the following year:

- The amount receivable as a result of unsettled creations of Commodity Contracts at year end was USD 14,211,084 (2012: USD 11,505,948); and
- the amount payable as a result of unsettled redemptions of Commodity Contracts at year end was USD 35,616,361 (2012: USD 28,513,755)

**8. Commodity Securities**

Whilst the Commodity Securities are quoted on the open market, the Company's liability relates to its contractual obligations to trade with certain counterparties at set prices on each trading day. These prices are based on an agreed formula, and are equal to the published NAVs of each class of Commodity Security. Therefore, the actual contractual issue and redemption of Commodity Securities occur at a price that fully match gains or losses on the Commodity Contracts. As a result the Company has no net exposure to gains or losses on the Commodity Securities and Commodity Contracts.

Through to the adoption of IFRS 13 from 1 January 2013, the Company now needs to measure the Commodity Securities at their transferable value rather than their settlement value. The transferable value is deemed to be the prices quoted on stock exchanges or other markets where the Commodity Securities are listed or traded. This application is prospective and is treated as a change in accounting estimate and recognised in profit or loss. However Commodity Contracts continue to be valued based on the agreed formula (which is equal to the published NAVs of each class of Commodity Security).

**ETFS COMMODITY SECURITIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**8. Commodity Securities (continued)**

The market price of Commodity Securities is a function of supply and demand amongst investors wishing to buy and sell Commodity Securities and the bid-offer spread that the market makers are willing to quote. The fair values and changes thereof during the year based on prices available on the open market as recognised in the financial statements are:

	<b>Change in Fair Value at 31 December 2013 USD</b>	<b>Market Fair Value at 31 December 2013 USD</b>
Classic Commodity Securities	414,812,325	2,459,521,782
Forward Commodity Securities	10,462,990	141,163,216
Short Commodity Securities	(49,833,806)	360,487,378
Leveraged Commodity Securities	172,252,962	452,682,202
<b>Total Commodity Securities</b>	<b>547,694,471</b>	<b>3,413,854,578</b>

The contractual redemption values and changes thereof during the year based on the contractual settlement values are:

	<b>Change in Contractual Redemption Value at 31 December 2013 USD</b>	<b>Contractual Redemption Value at 31 December 2013 USD</b>
Classic Commodity Securities	(430,159,116)	2,444,174,990
Forward Commodity Securities	(11,389,731)	140,236,475
Short Commodity Securities	50,241,497	360,895,070
Leveraged Commodity Securities	(180,541,569)	444,393,595
<b>Total Commodity Securities</b>	<b>(571,848,919)</b>	<b>3,389,700,130</b>

The overall impact is that through the mis-matched accounting values, the results of the Company reflect a gain or loss on the difference between the agreed formula price of the Commodity Contracts and the market price of Commodity Securities. This gain or loss would be reversed on a subsequent redemption of the Commodity Securities and cancellation of the equivalent Commodity Contracts. This gain or loss has been transferred to a Revaluation Reserve which is non-distributable. The mismatched accounting values are as shown below and represent the non-statutory adjustment presented on the statement of profit or loss and other comprehensive income:

	<b>Year Ended 31 December 2013 USD</b>	<b>Year Ended 31 December 2012 USD</b>
Net Loss Arising on Contractual and Fair Value of Commodity Contracts	(571,848,919)	(184,922,303)
Net Gain Arising on Contractual Redemption Value of Commodity Securities	547,694,471	184,922,303
	<b>(24,154,448)</b>	<b>-</b>

As at 31 December 2013, there were certain Commodity Securities awaiting creation or redemption with trade dates before the year end and settlement dates in the following year:

- The amount receivable as a result of unsettled redemptions of Commodity Securities at year end was USD 35,616,361 (2012: USD 28,513,755); and
- The amount payable as a result of unsettled creations of Commodity Securities at year end was USD 14,211,084 (2012: USD 11,505,948).

**ETFFS COMMODITY SECURITIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**8. Commodity Securities (continued)**

	<b>Change in Fair Value at 31 December 2012 USD</b>	<b>Fair Value at 31 December 2012 USD</b>
Classic Commodity Securities	73,643,569	3,130,766,039
Forward Commodity Securities	5,751,079	173,790,349
Short Commodity Securities	8,667,952	316,580,319
Leveraged Commodity Securities	96,859,703	696,733,732
Total Commodity Securities	<u>184,922,303</u>	<u>4,317,870,439</u>

**9. Trade and Other Payables**

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<b>USD</b>	<b>USD</b>
Management Fees Payable to ManJer	<u>2,241,548</u>	<u>2,531,215</u>

**10. Stated Capital**

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<b>USD</b>	<b>USD</b>
2 Shares of Nil Par Value, Issued at GBP 1 Each	<u>2</u>	<u>2</u>

The Company can issue an unlimited capital of nil par value shares.

All shares issued by the Company carry one vote per share without restriction and carry the right to dividends. All shares are held by ETFFS Holdings (Jersey) Limited ("HoldCo").

**11. Related Party Disclosures**

Entities and individuals which have a significant influence over the Company, either through the ownership of HoldCo shares, or by virtue of being a director of the Company, are related parties.

*Management Fees paid to ManJer during the year:*

	<b>Year ended 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<b>USD</b>	<b>USD</b>
Management Fees	<u>27,056,486</u>	<u>28,992,247</u>

*The following balances were due to ManJer at year end:*

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<b>USD</b>	<b>USD</b>
Management Fees Payable	<u>2,241,548</u>	<u>2,531,215</u>

**11. Related Party Disclosures (continued)**

As disclosed in the Directors' Report, ManJer paid directors' fees in respect of the Company of GBP 11,250 (2012: GBP 15,000).

Graeme D Ross and Craig A Stewart are directors of R&H Fund Services (Jersey) Limited ("R&H"), the administrator. During the year, R&H charged ManJer secretarial and administration fees in respect of the Company of GBP 185,810 (2012: GBP 271,528), of which GBP 46,490 (2012: GBP 67,882) was outstanding at the year end.

Craig A Stewart was appointed as director of ManJer on 18 July 2013. Graeme D Ross was a director of ManJer until 21 June 2013.

Graham J Tuckwell is also a director of ETFSL, ManJer and HoldCo.

**12. Financial Risk Management**

The Company is exposed to a number of risks arising from its activities. The risk management policies employed by the Company to manage these are discussed below.

*(a) Credit Risk*

The value of Commodity Securities and the ability of the Company to repay the redemption price is dependent on the receipt of such amount from UBS and Merrill Lynch and may be affected by the credit rating attached to UBS and Merrill Lynch.

The obligation of UBS and Merrill Lynch under the Commodity Contracts ranks only as an unsecured claim against UBS and Merrill Lynch. To cover the credit risk under the Commodity Contracts, UBS and Merrill Lynch are obliged to place an equivalent amount of collateral into a pledge account with Bank of New York based on the total outstanding value of the Commodity Contracts at the end of the previous trading day. In the event of default by UBS or Merrill Lynch, the Company has rights over the amounts placed in this pledge account.

*(b) Liquidity Risk*

Generally, there is no liquidity risk to the Company because the maturity profile of the securities and contracts is exactly matched, therefore the Company does not have to wait for a longer-term contract to mature in order to pay its debts to ex-security holders.

*(c) Sensitivity Analysis*

IFRS 7 requires disclosure of a sensitivity analysis for each type of market risk to which the entity is exposed to at the reporting date, showing how profit or loss and equity would have been affected by a reasonably possible change to the relevant risk variable.

The Company's rights and liability in respect of Commodity Contracts and Commodity Securities, respectively, relates to its contractual obligations to trade with certain counterparties at set prices on each trading day. As a result the Company's contractual and economic liability in connection with the issue of Commodity Securities is matched by movements in corresponding Commodity Contracts. Consequently, the Company does not have any net exposure to market price risk. Therefore, in the directors' opinion, no sensitivity analysis is required to be disclosed.

*(d) Settlement Risk*

The directors believe that settlement risk would only be caused by the risk of the Company's trading counterparty not delivering cash or securities on the settlement date. The directors feel that this risk is mitigated as a result of the cash or securities settling through the CREST system. The system ensures that the transaction does not settle until both parties have fulfilled their sides of the bargain.

Amounts outstanding in respect of positions yet to settle are disclosed in notes 7 and 8.



**ETFS COMMODITY SECURITIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**12. Financial Risk Management (continued)**

*(e) Capital Management*

The Company's principal activity is the listing and issue of Commodity Securities. These securities are issued as demand requires. The Company holds a corresponding amount of Commodity Contracts which exactly matches the total securities issued. ManJer supplied and arranged for the supply of all administrative services to the Company and paid all management and administration costs of the Company, in return for which the Company paid ManJer a fee equal to the management fee, licence allowance and creation and redemption fees charged to the Commodity Securities. The Company is not subject to any capital requirements imposed by a regulator and there were no changes in the Company's approach to capital management during the year.

As all Commodity Securities on issue are supported by an equivalent amount of Commodity Contracts held by UBS and Merrill Lynch and the running costs of the Company were paid by ManJer, the directors of the Company consider the capital management and its current capital resources are adequate to maintain the ongoing listing and issue of Commodity Securities.

*(f) Market Risk*

*i) Price Risk*

The Company's liability in respect of the Commodity Securities issued is related to the commodity price by reference to the futures market as quoted on the relevant futures Exchanges and is managed by the Company by entering into Commodity Contracts with UBS and Merrill Lynch which exactly match the liability created by the issue of Commodity Securities. The Company therefore bears no financial risk from a change in the price of commodity by reference to the futures price. Refer to note 8 for the further details regarding fair values.

However there is an inherent risk from the point of view of investors as the price of commodities, and thus the value of the Commodity Securities, may vary widely. The market price of Commodity Securities is a function of supply and demand amongst investors wishing to buy and sell Commodity Securities and the bid-offer spread that the market makers are willing to quote.

*ii) Interest Rate Risk*

The Company does not have significant exposure to interest rate risk as neither the Commodity Contracts or the Commodity Securities bear any interest.

*iii) Currency Risk*

The directors do not consider the Company to have a significant exposure to risk relating to currency risk arising from the current economic uncertainties facing a number of countries around the world as the gains or losses on the liability represented by the Commodity Securities are matched economically by losses or gains attributable to the Commodity Contracts.

*(g) Fair Value Hierarchy*

The levels in the hierarchy are defined as follows:

- Level 1 – fair value based on quoted prices in active markets for identical assets.
- Level 2 – fair values based on valuation techniques using observable inputs other than quoted prices within level 1.
- Level 3 – fair values based on valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement of each relevant asset/liability.

**ETFs COMMODITY SECURITIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**12. Financial Risk Management (continued)**

(g) *Fair Value Hierarchy (continued)*

The Company's liability in respect of Commodity Securities relates to its contractual obligations to trade with certain counterparties at set prices on each trading day. These prices are based on an agreed formula, and are equal to the published NAV's of each class of Commodity Security. Therefore, historically the Commodity Securities were classified as level 2 financial liabilities, as the Company's liability was calculated using third party pricing sources supported by observable, verifiable inputs. Through the adoption of IFRS 13 during the year ended 31 December 2013, the Company is required to utilise the available market price as the Commodity Securities are quoted on the open market. As a result the Commodity Securities were reclassified from Level 2 into Level 1 financial liabilities.

The Company's rights in respect of Commodity Contracts relates to its contractual obligations to trade with certain counterparties at set prices on each trading day. These prices are based on an agreed formula, and are equal to the published NAV's of each class of Commodity Security. Therefore, Commodity Contracts are classified as level 2 financial assets, as the Company's asset is calculated using third party pricing sources supported by observable, verifiable inputs.

The categorisation of the Company's assets and (liabilities) are as shown below:

	<b>Fair Value</b>	
	<b>2013</b>	<b>2012</b>
<b>Level 1</b>	<b>USD</b>	<b>USD</b>
Commodity Securities	<u>(3,413,854,578)</u>	<u>-</u>
<b>Level 2</b>		
Commodity Contracts	<u>3,389,700,130</u>	<u>4,317,870,439</u>
Commodity Securities	<u>-</u>	<u>(4,317,870,439)</u>

There are no assets or liabilities classified in level 3.

**13. Ultimate Controlling Party**

The immediate parent company is HoldCo, a Jersey registered company. The ultimate controlling party is Graham J Tuckwell through his shareholding in ETFSL. ETFSL is the parent company of HoldCo.