

CURRENCYSHARES BRITISH POUND STERLING TRUST

Form 10-Q

March 08, 2013

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

**FORM 10-Q**

X **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended January 31, 2013

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-32906

**CurrencyShares<sup>®</sup> British Pound Sterling Trust**

**Sponsored by Guggenheim Specialized Products, LLC,**

## **d/b/a Guggenheim Investments**

(Exact name of registrant as specified in its charter)

**New York**  
(State or other jurisdiction of  
incorporation or organization)

**No. 03-6118853**  
(IRS Employer  
Identification No.)

**805 King Farm Boulevard, Suite 600**

**Rockville, Maryland 20850**

(Address of principal executive offices) (Zip Code)

**(301) 296-5100**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T ( 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, non-accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CurrencyShares® British Pound Sterling Trust****Statements of Financial Condition**

	January 31, 2013 (Unaudited)	October 31, 2012
<b><u>Assets</u></b>		
Current Assets:		
British Pound Sterling deposits, interest bearing	\$ 70,557,575	\$ 71,759,412
British Pound Sterling deposits, non-interest bearing		
Receivable from accrued interest	2,305	3,969
Total Current Assets	\$ 70,559,880	\$ 71,763,381
<b><u>Liabilities, Redeemable Capital Shares and Shareholders' Equity</u></b>		
Current Liabilities:		
Accrued Sponsor's fee	\$ 22,679	\$ 24,570
Total Current Liabilities	22,679	24,570
Commitments and Contingent Liabilities (note 8)		
Redeemable Capital Shares, at redemption value, no par value, 13,000,000 authorized 450,000 issued and outstanding	70,537,201	71,738,811
Shareholders' Equity:		
Retained Earnings		
Cumulative Translation Adjustment		
Total Liabilities, Redeemable Capital Shares and Shareholders' Equity	\$ 70,559,880	\$ 71,763,381

*See Notes to Financial Statements.*

**Table of Contents****CurrencyShares® British Pound Sterling Trust****Statements of Comprehensive Income****(Unaudited)**

	Three months ended January 31, 2013	Three months ended January 31, 2012
<b><u>Income</u></b>		
Interest Income	\$ 9,200	\$ 36,779
Total Income	9,200	36,779
<b><u>Expenses</u></b>		
Sponsor's fee	(68,935)	(97,138)
Total Expenses	(68,935)	(97,138)
Net Loss	\$ (59,735)	\$ (60,359)
Basic and Diluted Earnings per Share	\$ (0.14)	\$ (0.10)
Weighted-average Shares Outstanding	434,783	622,826
Cash Dividends per Share	\$	\$
<b>Other Comprehensive Income/(Loss):</b>		
Currency translation adjustment	613	(562)
Total Comprehensive Loss	\$ (59,122)	\$ (60,921)

*See Notes to Financial Statements.*

**Table of Contents****CurrencyShares® British Pound Sterling Trust****Statements of Changes in Shareholders' Equity**

	<b>Three months ended January 31, 2013 (Unaudited)</b>	<b>Year Ended October 31, 2012</b>
Retained Earnings, Beginning of Period	\$	\$
Net Loss	(59,735)	(262,827)
Adjustment of redeemable capital shares to redemption value	59,735	262,827
Retained Earnings, End of Period	\$	\$
Cumulative Translation Adjustment, Beginning of Period	\$	\$
Currency translation adjustment	613	(2,572)
Adjustment of redeemable capital shares to redemption value	(613)	2,572
Cumulative Translation Adjustment, End of Period	\$	\$

*See Notes to Financial Statements.*

**Table of Contents****CurrencyShares® British Pound Sterling Trust****Statements of Cash Flows****(Unaudited)**

	<b>Three months ended January 31, 2013</b>	<b>Three months ended January 31, 2012</b>
<b>Cash flows from operating activities</b>		
Cash received for accrued income	\$ 10,818	\$ 40,946
Cash paid for expenses	(70,453)	(101,071)
Net cash used in operating activities	(59,635)	(60,125)
<b>Cash flows from financing activities</b>		
Cash received to purchase redeemable shares	23,760,648	7,757,734
Cash paid to redeem redeemable shares	(23,763,162)	(7,755,620)
Net cash (used in)/provided by financing activities	(2,514)	2,114
Adjustment to period cash flows due to currency movement	(1,139,688)	(2,147,527)
Decrease in cash	(1,201,837)	(2,205,538)
Cash at beginning of period	71,759,412	96,130,250
Cash at end of period	\$ 70,557,575	\$ 93,924,712
<b>Reconciliation of net loss to net cash used in operating activities</b>		
Net Loss	\$ (59,735)	\$ (60,359)
Adjustments to reconcile net loss to net cash used in operating activities:		
Receivable from accrued interest	(2,305)	(11,233)
Prior period receivable from accrued interest	3,969	15,791
Currency translation adjustment	327	463
Accrued sponsor fee	22,679	31,819
Prior period accrued sponsor fee	(24,570)	(36,606)
Net cash used in operating activities	\$ (59,635)	\$ (60,125)

*See Notes to Financial Statements.*

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**CurrencyShares® British Pound Sterling Trust**

**Notes to Financial Statements**

**(Unaudited)**

**1. Organization and Description of the Trust**

The CurrencyShares® British Pound Sterling Trust (the Trust) was formed under the laws of the State of New York on June 8, 2006 when Guggenheim Specialized Products, LLC d/b/a Guggenheim Investments (the Sponsor) deposited 100 British Pounds Sterling in the Trust's primary deposit account held by JPMorgan Chase Bank N.A., London Branch (the Depository). The Sponsor is a Delaware limited liability company whose sole member is Security Investors, LLC. (also d/b/a Guggenheim Investments). The Sponsor is responsible for, among other things, overseeing the performance of The Bank of New York Mellon (the Trustee) and the Trust's principal service providers, including the preparation of financial statements. The Trustee is responsible for the day-to-day administration of the Trust.

The investment objective of the Trust is for the Trust's shares (the Shares) to reflect the price of the British Pound Sterling plus accrued interest less the Trust's expenses and liabilities. The Shares are intended to provide investors with a simple, cost-effective means of gaining investment benefits similar to those of holding British Pounds Sterling. The Trust's assets primarily consist of British Pounds Sterling on demand deposit in two deposit accounts maintained by the Depository: a primary deposit account which may earn interest and a secondary deposit account which does not earn interest. The secondary deposit account is used to account for any interest that may be received and paid out on creations and redemptions of blocks of 50,000 Shares ( Baskets ). The secondary account is also used to account for interest earned, if any, on the primary deposit account, pay Trust expenses and distribute any excess interest to holders of Shares ( Shareholders ) on a monthly basis.

The accompanying unaudited financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q. In the opinion of management, all material adjustments, consisting only of normal recurring adjustments, considered necessary for a fair statement of the interim period financial statements have been made. Interim period results are not necessarily indicative of results for a full-year period. These financial statements and the notes thereto should be read in conjunction with the Trust's financial statements included in the Form 10-K as filed on January 14, 2013.

**2. Significant Accounting Policies**

**A. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of the assets, liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period and the evaluation of subsequent events through the issuance of the financial statements. Actual results could differ from those estimates.

**B. Foreign Currency Translation**

The Trustee calculates the Trust's net asset value ( NAV ) each business day, as described in Note 4. As of November 13, 2008, British Pound Sterling deposits (cash) are translated for NAV calculation purposes at the Closing Spot Rate, which is the USD/British Pound Sterling exchange rate as determined by The WM Company, at 4:00 PM (London fixing) on each day that NYSE Arca is open for regular trading.

The functional currency of the Trust is the British Pound Sterling in accordance with generally accepted accounting standards. For financial statement reporting purposes, the U.S. Dollar is the reporting currency. As a result, the financial records of the Trust are translated from British Pounds Sterling to USD. The Closing Spot Rate on the last day of the period is used for translation in the statements of financial condition. The average Closing Spot Rate for the period is used for translation in the statements of comprehensive income and the statements of cash flows. Any currency translation adjustment is included in comprehensive income.



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### **C. Federal Income Taxes**

The Trust is treated as a grantor trust for federal income tax purposes and, therefore, no provision for federal income taxes is required. Interest, gains and losses are passed through to the Shareholders.

Shareholders generally will be treated, for U.S. federal income tax purposes, as if they directly owned a pro-rata share of the assets held in the Trust. Shareholders also will be treated as if they directly received their respective pro-rata portion of the Trust's income, if any, and as if they directly incurred their respective pro-rata portion of the Trust's expenses. The acquisition of Shares by a U.S. Shareholder as part of a creation of a Basket will not be a taxable event to the Shareholder.

The Sponsor's fee accrues daily and is payable monthly. For U.S. federal income tax purposes, an accrual-basis U.S. Shareholder generally will be required to take into account as an expense its allocable portion of the USD-equivalent of the amount of the Sponsor's fee that is accrued on each day, with such USD-equivalent being determined by the currency exchange rate that is in effect on the respective day. To the extent that the currency exchange rate on the date of payment of the accrued amount of the Sponsor's fee differs from the currency exchange rate in effect on the day of accrual, the U.S. Shareholder will recognize a currency gain or loss for U.S. federal income tax purposes.

The Trust does not expect to generate taxable income except for interest income (if any) and gain (if any) upon the sale of British Pounds Sterling. A non-U.S. Shareholder generally will not be subject to U.S. federal income tax with respect to gain recognized upon the sale or other disposition of Shares, or upon the sale of British Pounds Sterling by the Trust, unless: (1) the non-U.S. Shareholder is an individual and is present in the United States for 183 days or more during the taxable year of the sale or other disposition, and the gain is treated as being from United States sources; or (2) the gain is effectively connected with the conduct by the non-U.S. Shareholder of a trade or business in the United States.

A non-U.S. Shareholder's portion of any interest income earned by the Trust generally will not be subject to U.S. federal income tax unless the Shares owned by such non-U.S. Shareholder are effectively connected with the conduct by the non-U.S. Shareholder of a trade or business in the United States.

### **D. Revenue Recognition**

Interest on the primary deposit account, if any, accrues daily as earned and is received on a monthly basis.

### **E. Dividends**

To the extent that the interest earned by the Trust exceeds the sum of the Sponsor's fee for the prior month plus other Trust expenses, if any, the Trust will distribute, as a dividend (herein referred to as dividends or distributions), the excess interest earned in British Pounds Sterling effective on the first business day of the subsequent month. The Trustee will direct that the excess British Pounds Sterling be converted into USD at the prevailing market rate and the Trustee will distribute the USD as promptly as practicable to Shareholders on a pro-rata basis (in accordance with the number of Shares that they own).

## **3. British Pound Sterling Deposits**

British Pound Sterling principal deposits are held in a British Pound Sterling-denominated, interest-bearing demand account. For the three months ended January 31, 2013, there were British Pound Sterling principal deposits of 14,832,791, British Pound Sterling principal redemptions of 14,834,361 and British Pound Sterling withdrawals (to pay expenses) of 37,227, resulting in an ending British Pound Sterling principal balance of 44,503,203. This equates to 70,557,575 USD. For the year ended October 31, 2012, there were British Pound Sterling principal deposits of 24,786,533 British Pound Sterling principal redemptions of 39,634,561 and British Pound Sterling withdrawals (to pay expenses) of 166,507 resulting in an ending British Pound Sterling principal balance of 44,542,000. This equates to 71,759,412 USD.

Net interest, if any, associated with creation and redemption activity is held in a British Pound Sterling-denominated non-interest-bearing account, and any balance is distributed in full as part of the monthly income distributions, if any.

**Table of Contents****4. Redeemable Capital Shares**

Shares are classified as redeemable for financial statement purposes, since they are subject to redemption. Shares are issued and redeemed continuously in Baskets in exchange for British Pounds Sterling. Individual investors cannot purchase or redeem Shares in direct transactions with the Trust. Only Authorized Participants (as defined below) may place orders to create and redeem Baskets. An Authorized Participant is a DTC participant that is a registered broker-dealer or other institution eligible to settle securities transactions through the book-entry facilities of the DTC and which has entered into a contractual arrangement with the Trust and the Sponsor governing, among other matters, the creation and redemption process. Authorized Participants may redeem their Shares at any time in Baskets.

Due to expected continuing creations and redemptions of Baskets and the three-day period for settlement of each creation or redemption, the Trust reflects Shares created as a receivable. Shares redeemed are reflected as a liability on the trade date. Outstanding Shares are reflected at a redemption value, which is the NAV per Share at the period end date. Adjustments to redeemable capital Shares at redemption value are recorded against retained earnings or, in the absence of retained earnings, by charges against the cumulative translation adjustment.

Activity in redeemable capital Shares is as follows:

	Three months ended January 31, 2013 (Unaudited)		Year ended October 31, 2012	
	Shares	U.S. Dollar Amount	Shares	U.S. Dollar Amount
<b>Opening balance</b>	450,000	\$ 71,738,811	600,000	\$ 96,109,435
Shares issued	150,000	23,760,648	250,000	39,142,894
Shares redeemed	(150,000)	(23,763,162)	(400,000)	(62,590,899)
Adjustment to period Shares due to currency movement and other		(1,199,096)		(922,619)
<b>Ending balance</b>	450,000	\$ 70,537,201	450,000	\$ 71,738,811

The Trustee calculates the Trust's NAV each business day. To calculate the NAV, the Trustee subtracts the Sponsor's accrued fee through the previous day from the British Pounds Sterling held by the Trust (including all unpaid interest accrued through the preceding day) and calculates the value of the British Pounds Sterling in USD based upon the Closing Spot Rate. If, on a particular evaluation day, the Closing Spot Rate has not been determined and announced by 6:00 PM (London time), then the most recent Closing Spot Rate will be used to determine the NAV of the Trust unless the Trustee, in consultation with the Sponsor, determines that such price is inappropriate to use as the basis for the valuation. If the Trustee and the Sponsor determine that the most recent Closing Spot Rate is not an appropriate basis for valuation of the Trust's British Pounds Sterling, they will determine an alternative basis for the valuation. The Trustee also determines the NAV per Share, which equals the NAV of the Trust, divided by the number of outstanding Shares. Shares deliverable under a purchase order are considered outstanding for purposes of determining NAV per Share; Shares deliverable under a redemption order are not considered outstanding for this purpose.

**5. Sponsor's Fee**

The Sponsor's fee accrues daily at an annual nominal rate of 0.40% of the British Pounds Sterling in the Trust (including all unpaid interest but excluding unpaid fees, each as accrued through the immediately preceding day) and is paid monthly.

The Sponsor assumes and pays the following administrative and marketing expenses incurred by the Trust: the Trustee's monthly fee, NYSE Arca listing fees, SEC registration fees, typical maintenance and transaction fees of the Depository, printing and mailing costs, audit fees and expenses, up to \$100,000 per year in legal fees and expenses, and applicable license fees.

In certain exceptional cases the Trust will pay for some expenses in addition to the Sponsor's fee. These exceptions include expenses not assumed by the Sponsor (i.e., expenses other than those identified in the preceding paragraph), taxes and governmental charges, expenses and costs of any extraordinary services performed by the Trustee or the Sponsor on behalf of the Trust or action taken by the Trustee or the Sponsor to protect the Trust or the interests of Shareholders, indemnification of the Sponsor under the Depository Trust Agreement, and legal expenses in excess of \$100,000 per year.



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### **6. Related Parties**

The Sponsor is a related party of the Trust. The Sponsor oversees the performance of the Trustee and the Trust's principal service providers, including the preparation of financial statements, but does not exercise day-to-day oversight over the Trustee or the Trust's service providers.

### **7. Concentration Risk**

All of the Trust's assets are British Pounds Sterling, which creates a concentration risk associated with fluctuations in the price of the British Pound Sterling. Accordingly, a decline in the British Pound Sterling to USD exchange rate will have an adverse effect on the value of the Shares. Factors that may have the effect of causing a decline in the price of the British Pound Sterling include national debt levels and trade deficits, domestic and foreign inflation rates, domestic and foreign interest rates, investment and trading activities of institutions and global or regional political, economic or financial events and situations. Substantial sales of British Pounds Sterling by the official sector (central banks, other governmental agencies and related institutions that buy, sell and hold British Pounds Sterling as part of their reserve assets) could adversely affect an investment in the Shares.

All of the Trust's British Pounds Sterling are held by the Depository. Accordingly, a risk associated with the concentration of the Trust's assets in accounts held by a single financial institution exists and increases the potential for loss by the Trust and the Trust's beneficiaries in the event that the Depository becomes insolvent.

### **8. Commitments and Contingencies**

Under the Trust's organizational documents, the Sponsor is indemnified against any liability or expense it incurs without negligence, bad faith or willful misconduct on its part. The Trust's maximum exposure under this arrangement is unknown, as this would involve future claims that may be made against the Trust that have not yet occurred.

### **9. Adoption of New Accounting Standard**

The Trust adopted *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU No. 2011-05) in the 2013 first quarter which amends existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, a statement of comprehensive income or (2) in two separate but consecutive financial statements, an income statement followed by a separate statement of other comprehensive income. ASU No. 2011-05 required retrospective application. The adoption of these updates changed the order in which certain financial information is presented, but did not have any other impact on the financial statements.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Cautionary Statement Regarding Forward-Looking Information**

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as anticipate, expect, intend, plan, believe, seek, outlook and estimate and other similar. Forward-looking statements are based upon our current expectations and beliefs concerning future developments and their potential effects on us. Such forward-looking statements are not guarantees of future performance. Various factors may cause our actual results to differ materially from those expressed in our forward-looking statements. These factors include fluctuations in the price of the British Pound Sterling, as the value of the Shares relates directly to the value of the British Pounds Sterling held by the Trust and price fluctuations could materially adversely affect an investment in the Shares. Readers are urged to review the Risk Factors section contained in the Trust's most recent annual report on Form 10-K for a description of other risks and uncertainties that may affect an investment in the Shares.

Neither Guggenheim Specialized Products, LLC d/b/a Guggenheim Investments (the Sponsor) nor any other person assumes responsibility for the accuracy or completeness of forward-looking statements contained in this report. The forward-looking statements are made as of the date of this report, and will not be revised or updated to reflect actual results or changes in the Sponsor's expectations or predictions.

#### **Trust Overview**

The CurrencyShares® British Pound Sterling Trust (the Trust) is a grantor trust that was formed on June 8, 2006. The Trust issues shares (the Shares) in blocks of 50,000 (a Basket) in exchange for deposits of British Pound Sterling and distributes British Pound Sterling in connection with the redemption of Baskets. The shares began trading on the New York Stock Exchange (NYSE) under the ticker symbol FXB on June 26, 2006. The primary listing of the Shares was transferred to NYSE Arca on October 30, 2007.

The Trust is a passive investment vehicle. The Trust does not have any officers, directors or employees. The investment objective of the Trust is for the Shares to reflect the price of the British Pound Sterling plus accrued interest, if any, less the expenses of the Trust's operations. The Trust does not engage in any activities designed to obtain profit from, or ameliorate losses caused by, changes in the price of the British Pound Sterling.

#### **Definition of Net Asset Value**

The Trustee calculates, and the Sponsor publishes, the Trust's Net Asset Value (NAV) each business day. To calculate the NAV, the Trustee adds to the amount of British Pounds Sterling in the Trust at the end of the preceding day accrued but unpaid interest, if any, British Pounds Sterling receivable under pending purchase orders and the value of other Trust assets, and subtracts the accrued but unpaid Sponsor's fee, British Pounds Sterling payable under pending redemption orders and other Trust expenses and liabilities, if any. Prior to November 13, 2008, the NAV was expressed in U.S. Dollars (USD) based on the Noon Buying Rate, which is the British Pound Sterling/USD exchange rate as determined by the Federal Reserve Bank of New York at 12:00 PM (New York time). As of November 13, 2008, the NAV is expressed in USD based on the British Pound Sterling/USD exchange rate as determined by The WM Company, at 4:00 PM (London fixing) (the Closing Spot Rate) on each day that NYSE Arca is open for regular trading. If, on a particular evaluation day, the Closing Spot Rate has not been determined and announced by 6:00 PM (London time), then the most recent Closing Spot Rate is used to determine the NAV of the Trust unless the Trustee, in consultation with the Sponsor, determines that such price is inappropriate to use as the basis for the valuation.

The Trustee also determines the NAV per Share, which equals the NAV of the Trust, divided by the number of outstanding Shares. The NAV of the Trust and the NAV per Share are published by the Sponsor on each day that NYSE Arca is open for regular trading and are posted on the Trust's website, [www.currencyshares.com](http://www.currencyshares.com).

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**Movements in the Price of British Pound Sterling**

The investment objective of the Trust is for the Shares to reflect the price of the British Pound Sterling plus accrued interest, less the expenses of the Trust's operations. The Shares are intended to provide institutional and retail investors with a simple, cost-effective means of gaining investment benefits similar to those of holding British Pounds Sterling. Each outstanding Share represents a proportional interest in the British Pounds Sterling held by the Trust. The following chart provides recent trends on the price of the British Pound Sterling. The chart illustrates movements in the price of British Pound Sterling in USD and is based on the Noon Buying Rate (prior to November 13, 2008) and the Closing Spot Rate (as of and after November 13, 2008).

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**NAV per Share; Valuation of British Pound Sterling**

The following chart illustrates the movement in the price of the Shares based on (1) NAV per Share, (2) the bid and ask midpoint offered on NYSE Arca and (3) the Noon Buying Rate (prior to November 13, 2008) and the Closing Spot Rate (as of and after November 13, 2008), expressed as a multiple of 100 British Pounds Sterling:

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### **Liquidity**

The Sponsor is not aware of any trends, demands, conditions or events that are reasonably likely to result in material changes to the Trust's liquidity needs. The Trust's Depository, JPMorgan Chase Bank, N.A., London Branch, maintains two deposit accounts for the Trust, a primary deposit account that is expected to earn interest and a secondary deposit account which does not earn interest. Interest on the primary deposit account, if any, accrues daily and is paid monthly. The interest rate in effect as of January 31, 2013 was an annual nominal rate of 0.04%. The following chart provides the daily rate paid by the Depository since the Shares began trading:

In exchange for a fee, the Sponsor bears most of the expense incurred by the Trust. As a result, the only ordinary expense of the Trust during the periods covered by this report was the Sponsor's fee. Each month the Depository deposits into the secondary deposit account accrued but unpaid interest, if any, and the Trustee withdraws British Pounds Sterling from the secondary deposit account to pay the accrued Sponsor's fee for the previous month plus other Trust expenses, if any. When the interest deposited, if any, exceeds the sum of the Sponsor's fee for the prior month plus other Trust expenses, if any, the Trustee converts the excess into USD at a prevailing market rate and distributes the USD as promptly as practicable to Shareholders on a pro-rata basis (in accordance with the number of Shares that they own). The Trust did not make any distributions during the quarter ended January 31, 2013.

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Sponsor's management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period covered by this report.

In addition to the description below, please refer to Note 2 to the consolidated financial statements for further discussion of our accounting policies.

The functional currency of the Trust is the British Pound Sterling in accordance with ASC 830, Foreign Currency Translation.



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### **Results of Operations**

As of October 31, 2012, the number of British Pounds Sterling owned by the Trust was 44,542,000, resulting in a redeemable capital share value of \$71,738,811. During the three months ended January 31, 2013, an additional 150,000 Shares were created in exchange for 14,832,791 British Pounds Sterling, and 150,000 Shares were redeemed in exchange for 14,834,361 British Pounds Sterling. In addition, 37,227 British Pounds Sterling were withdrawn to pay the portion of sponsor fee that exceeded interest earned. As of January 31, 2013, the number of British Pounds Sterling owned by the Trust was 44,503,203, resulting in a redeemable capital Share value of \$70,537,201.

A decrease in the Trust's redeemable capital Share value from \$71,738,811 at October 31, 2012 to \$70,537,201 at January 31, 2013, was primarily the result of a decrease in the Closing Spot Rate from 1.6111 at October 31, 2012 to 1.5854 at January 31, 2013.

Interest income decreased from \$36,779 for the three months ended January 31, 2012 to \$9,200 for the three months ended January 31, 2013, attributable primarily to a decrease in the weighted-average British Pounds Sterling in the Trust coupled with decrease in the annual nominal interest rate paid by the Depository, as set forth in the chart above.

The Sponsor's fee accrues daily at an annual nominal rate of 0.40% of the British Pounds Sterling in the Trust. Due primarily to a decrease in the weighted-average British Pounds Sterling in the Trust, the Sponsor's fee decreased from \$97,138 for the three months ended January 31, 2012 to \$68,935 for the three months ended January 31, 2013. The only expense of the Trust during the three months ended January 31, 2012 was the Sponsor's fee.

The Trust's net loss for the three months ended January 31, 2013 was \$59,735 due to the Sponsor's fee of \$68,935 exceeding interest income of \$9,200.

Cash dividends were not paid by the Trust during the three months ended January 31, 2012 and the three months ended January 31, 2013 as the Trust's interest income did not exceed the Trust's expenses during those periods.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Except as described above with respect to fluctuations in the USD/British Pound Sterling exchange rate and changes in the nominal annual interest rate paid by the Depository on British Pounds Sterling held by the Trust, the Trust is not subject to market risk. The Trust does not hold securities and does not invest in derivative products.

### **Item 4. Controls and Procedures**

The Trust maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) designed to ensure that material information relating to the Trust is recorded, processed and disclosed on a timely basis. The Trust's disclosure controls and procedures are designed by or under the supervision of the Sponsor's chief executive officer and chief financial officer, who exercise oversight over the Trust as the Trust has no officers. The chief executive officer and chief financial officer of the Sponsor have evaluated the effectiveness of the Trust's disclosure controls and procedures as of January 31, 2013. Based on that evaluation, the chief executive officer and chief financial officer of the Sponsor have concluded that the disclosure controls and procedures of the Trust were effective as of the end of the period covered by this report.

There were no changes in the Trust's internal control over financial reporting that occurred during the Trust's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in the Risk Factors section of the Trust's Annual Report on Form 10-K filed with the Securities and Exchange Commission on January 14, 2013.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) None.

(b) Not applicable.

(c) During the quarter ended January 31, 2013, 3 Baskets (150,000 Shares registered pursuant to Section 12 of the Securities Exchange Act of 1934) was redeemed by the Trust, as follows:

Period		Total Number of Registered Shares Redeemed	Average Price Per Share
11/01/2012	11/30/2012		\$
12/01/2012	12/31/2012	50,000	\$ 159.42
01/01/2013	01/31/2013	100,000	\$ 158.38

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

None.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

**Exhibit**

<b>No.</b>	<b>Description</b>
31.1	Certification by Principal Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CURRENCYSHARES®

BRITISH POUND STERLING TRUST

By Guggenheim Specialized Products, LLC

Sponsor of the CurrencyShares®

British Pound Sterling Trust

Date: March 8, 2013

By: /s/ JOSEPH ARRUDA  
Joseph Arruda  
Chief Financial Officer  
(principal financial officer)