

CURRENCYSHARES SWISS FRANC TRUST  
Form 10-Q  
September 09, 2011

**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 July 31, 2011

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 001-32907

**CurrencyShares<sup>®</sup> Swiss Franc Trust**

**Sponsored by Rydex Specialized Products LLC,**

# d/b/a Rydex Investments

(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of

No. 20-4686336  
(IRS Employer

incorporation or organization)

Identification No.)

805 King Farm Boulevard, Suite 600  
Rockville, Maryland  
(Address of principal executive offices)

20850  
(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

**CURRENCYSHARES® SWISS FRANC TRUST**

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CurrencyShares® Swiss Franc Trust****Statements of Financial Condition**

	July 31, 2011 (Unaudited)	October 31, 2010
<b><u>Assets</u></b>		
Current Assets:		
Swiss Franc deposits, interest bearing	\$ 1,136,198,471	\$ 353,230,869
Swiss Franc deposits, non-interest bearing		
Subscription receivable	62,754,372	
Total Current Assets	\$ 1,198,952,843	\$ 353,230,869
<b><u>Liabilities, Redeemable Capital Shares and Shareholders' Equity</u></b>		
Current Liabilities:		
Accrued Sponsor's fee	\$ 344,332	\$ 126,228
Total Current Liabilities	344,332	126,228
Commitments and Contingent Liabilities (note 8)		
Redeemable Capital Shares, at redemption value, no par value, 22,500,000 authorized, 9,550,000 and 3,500,000 issued and outstanding, respectively	1,198,608,511	353,104,641
Shareholders' Equity:		
Retained Earnings		
Cumulative Translation Adjustment		
Total Liabilities, Redeemable Capital Shares and Shareholders' Equity	\$ 1,198,952,843	\$ 353,230,869

*See Notes to Financial Statements.*

## CurrencyShares® Swiss Franc Trust

## Statements of Income and Comprehensive Income

(Unaudited)

	Three months ended July 31, 2011	Three months ended July 31, 2010	Nine months ended July 31, 2011	Nine months ended July 31, 2010
<b>Income</b>				
Total Income	\$	\$	\$	\$
<b>Expenses</b>				
Sponsor's fee	(826,921)	(309,920)	(1,666,724)	(968,842)
Total Expenses	(826,921)	(309,920)	(1,666,724)	(968,842)
Net Loss	\$ (826,921)	\$ (309,920)	\$ (1,666,724)	\$ (968,842)
Other Comprehensive Loss:				
Currency translation adjustment	(59,905)	(16,811)	(100,687)	(4,920)
Total Comprehensive Loss	\$ (886,826)	\$ (326,731)	\$ (1,767,411)	\$ (973,762)
Basic and Diluted Earnings per Share	\$ (0.12)	\$ (0.09)	\$ (0.33)	\$ (0.28)
Weighted-average Shares Outstanding	7,057,609	3,413,043	5,058,608	3,462,088
Cash Dividends per Share	\$	\$	\$	\$

*See Notes to Financial Statements.*

## CurrencyShares® Swiss Franc Trust

## Statements of Changes in Shareholders' Equity

	Nine months ended July 31, 2011 (Unaudited)	Year ended October 31, 2010
Retained Earnings, Beginning of Period	\$	\$
Net Loss	(1,666,724)	(1,331,736)
Adjustment of redeemable capital shares to redemption value	1,666,724	1,331,736
Retained Earnings, End of Period	\$	\$
Cumulative Translation Adjustment, Beginning of Period	\$	\$
Currency translation adjustment	(100,687)	(12,373)
Adjustment of redeemable capital shares to redemption value	100,687	12,373
Cumulative Translation Adjustment, End of Period	\$	\$

*See Notes to Financial Statements.*

## CurrencyShares® Swiss Franc Trust

## Statements of Cash Flows

(Unaudited)

	Nine months ended July 31, 2011	Nine months ended July 31, 2010
<b>Cash flows from operating activities</b>		
Cash paid for expenses	\$ (1,472,811)	\$ (973,331)
Net cash used in operating activities	(1,472,811)	(973,331)
<b>Cash flows from financing activities</b>		
Cash received to purchase redeemable shares	629,621,053	51,278,129
Cash paid to redeem redeemable shares	(27,182,050)	(79,323,398)
Net cash provided by/(used in) financing activities	602,439,003	(28,045,269)
Adjustment to period cash flows due to currency movement	182,001,410	(8,321,988)
Increase/(Decrease) in cash	782,967,602	(37,340,588)
Cash at beginning of period	353,230,869	369,716,518
Cash at end of period	\$ 1,136,198,471	\$ 332,375,930
<b>Reconciliation of net loss to net cash used in operating activities</b>		
Net loss	\$ (1,666,724)	\$ (968,842)
Adjustments to reconcile net loss to net cash used in operating activities:		
Currency translation adjustment	(24,191)	4,228
Accrued sponsor fee	344,332	114,095
Prior period accrued sponsor fee	(126,228)	(122,812)
Net cash used in operating activities	\$ (1,472,811)	\$ (973,331)

*See Notes to Financial Statements.*

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CurrencyShares® Swiss Franc Trust

Notes to Financial Statements

(Unaudited)

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

The CurrencyShares® Swiss Franc Trust (the Trust) was formed under the laws of the State of New York on June 8, 2006 when Rydex Specialized Products LLC d/b/a Rydex Investments (the Sponsor) deposited 100 Swiss Franc 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 Rydex 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 Swiss Franc 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 Swiss Francs. The Trust's assets primarily consist of Swiss Francs 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/A as filed on March 10, 2011.

**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, 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. Prior to November 13, 2008, Swiss Franc deposits (cash) were translated for NAV calculation purposes at the Noon Buying Rate, which was the U.S. Dollar (USD)/Swiss Franc exchange rate as determined and published by the Federal Reserve Bank of New York. As of November 13, 2008, Swiss Franc deposits (cash) are translated for NAV calculation purposes at the Closing Spot Rate, which is the USD/Swiss Franc exchange rate as determined by WM Company at 4:00 PM (London time) on each day that NYSE Arca is open for regular trading.

The functional currency of the Trust is the Swiss Franc 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 Swiss Francs 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 income and comprehensive income and the statements of cash flows. Any currency translation adjustment is included in comprehensive income.

### **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 Swiss Francs. 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 Swiss Francs 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 Swiss Francs effective on the first business day of the subsequent month. The Trustee will direct that the excess Swiss Francs be converted into USD at a 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. Swiss Franc Deposits**

Swiss Franc principal deposits are held in a Swiss Franc-denominated, interest-bearing demand account. The interest rate in effect as of July 31, 2011 was an annual nominal rate of 0.00%. For the nine months ended July 31, 2011, there were Swiss Franc principal deposits of 623,748,543, Swiss Franc principal redemptions 24,793,101 and Swiss Franc withdrawals (to pay expenses) of 1,343,370, resulting in an ending Swiss Franc principal balance of

945,014,631. This equates to 1,198,952,843 USD. For the year ended October 31, 2010, there were Swiss Franc principal deposits of 114,228,832, Swiss Franc principal redemptions of 144,111,384 and Swiss Franc withdrawals (to pay expenses) of 1,397,032, resulting in an ending Swiss Franc principal balance of 347,402,559. This equates to 353,230,869 USD.

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

#### 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 Swiss Francs. 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 Depository Trust Company ( DTC ) participant that is a registered broker-dealer or other institution eligible to settle securities transactions through the book-entry facilities of 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:

	Nine months ended		Year ended	
	July 31, 2011 (Unaudited)		October 31, 2010	
	Shares	U.S. Dollar Amount	Shares	U.S. Dollar Amount
<b>Opening balance</b>	3,500,000	\$ 353,104,641	3,800,000	\$ 369,593,706
Shares issued	6,300,000	683,850,075	1,150,000	108,758,290
Shares redeemed	(250,000)	(27,182,050)	(1,450,000)	(137,209,734)
Adjustment to period Shares due to currency movement and other		188,835,845		11,962,379
<b>Ending balance</b>	<b>9,550,000</b>	<b>\$ 1,198,608,511</b>	<b>3,500,000</b>	<b>\$ 353,104,641</b>

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 Swiss Francs held by the Trust (including all unpaid interest accrued through the preceding day) and calculates the value of the Swiss Francs 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 Swiss Francs, 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 Swiss Francs 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