

CURRENCYSHARES EURO TRUST

Form 10-Q

March 08, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

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 001-32694

CurrencyShares[®] Euro 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. 20-3613421 (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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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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CurrencyShares® Euro Trust
Statements of Financial Condition

	January 31, 2013 (Unaudited)	October 31, 2012
<u>Assets</u>		
Current Assets:		
Euro deposits, interest bearing	\$ 242,514,624	\$ 263,931,355
Euro deposits, non-interest bearing		
Subscriptions receivable	33,669,916	
Total Current Assets	\$ 276,184,540	\$ 263,931,355
<u>Liabilities, Redeemable Capital Shares and Shareholders' Equity</u>		
Current Liabilities:		
Accrued Sponsor's fee	\$ 94,255	\$ 104,242
Total Current Liabilities	94,255	104,242
Commitments and Contingent Liabilities (note 8)		
Redeemable Capital Shares, at redemption value, no par value, 92,000,000 authorized issued and outstanding	2,050,000 276,090,285	263,827,113
Shareholders' Equity:		
Retained Earnings		
Cumulative Translation Adjustment		
Total Liabilities, Redeemable Capital Shares and Shareholders' Equity	\$ 276,184,540	\$ 263,931,355

See Notes to Financial Statements.

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CurrencyShares® Euro Trust
Statements of Comprehensive Income
(Unaudited)

	Three months ended January 31, 2013	Three months ended January 31, 2012
<u>Income</u>		
Interest Income	\$	\$ 314,773
Total Income		314,773
<u>Expenses</u>		
Sponsor's fee	(248,127)	(371,167)
Total Expenses	(248,127)	(371,167)
Net Loss	\$ (248,127)	\$ (56,394)
Basic and Diluted Earnings per Share	\$ (0.13)	\$ (0.02)
Weighted-average Shares Outstanding	1,902,174	2,880,435
Cash Dividends per Share	\$	\$ 0.04
Other Comprehensive (Loss)/Income:		
Currency translation adjustment	(9,404)	468
Total Comprehensive Loss	\$ (257,531)	\$ (55,926)

See Notes to Financial Statements.

Table of Contents**CurrencyShares® Euro Trust****Statements of Changes in Shareholders Equity**

	Three Months ended January 31, 2013 (Unaudited)	Year ended October 31, 2012
Retained Earnings, Beginning of Period	\$	\$
Net Loss	(248,127)	(790,317)
Distributions Paid		(102,361)
Adjustment of redeemable capital shares to redemption value	248,127	892,678
Retained Earnings, End of Period	\$	\$
Cumulative Translation Adjustment, Beginning of Period	\$	\$
Currency translation adjustment	(9,404)	(830)
Adjustment of redeemable capital shares to redemption value	9,404	830
Cumulative Translation Adjustment, End of Period	\$	\$

See Notes to Financial Statements.

Table of Contents**CurrencyShares® Euro Trust****Statements of Cash Flows****(Unaudited)**

	Three months ended January 31, 2013	Three months ended January 31, 2012
Cash flows from operating activities		
Cash received for accrued income	\$	\$ 467,751
Cash paid for expenses	(262,524)	(368,027)
Net cash (used in)/provided by operating activities	(262,524)	99,724
Cash flows from financing activities		
Cash received to purchase redeemable shares	279,061,873	729,729,837
Cash paid to redeem redeemable shares	(311,522,484)	(683,694,866)
Cash paid for distributions		(104,566)
Net cash (used in)/provided by financing activities	(32,460,611)	45,930,405
Adjustment to period cash flows due to currency movement	11,306,404	(16,182,200)
(Decrease)/Increase in cash	(21,416,731)	29,847,929
Cash at beginning of period	263,931,355	257,008,201
Cash at end of period	\$ 242,514,624	\$ 286,856,130
Reconciliation of net loss to net cash used in/provided by operating activities		
Net Loss	\$ (248,127)	\$ (56,394)
Adjustments to reconcile net loss to net cash used in/provided by operating activities:		
Receivable from accrued interest		(31,355)
Prior period receivable from accrued interest		195,055
Currency translation adjustment	(4,410)	(4,148)
Accrued sponsor fee	94,255	103,088
Prior period accrued sponsor fee	(104,242)	(106,522)
Net cash (used in)/provided by operating activities	\$ (262,524)	\$ 99,724

See Notes to Financial Statements.

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CurrencyShares® Euro Trust

Notes to Financial Statements

(Unaudited)

1. Organization and Description of the Trust

The CurrencyShares® Euro Trust (the Trust) was formed under the laws of the State of New York on December 5, 2005 when Guggenheim Specialized Products, LLC d/b/a Guggenheim Investments (the Sponsor) deposited 100 euro 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 euro 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 euro. The Trust's assets primarily consist of euro 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 date 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, Euro deposits (cash) are translated for NAV calculation purposes at the Closing Spot Rate, which is the USD/euro 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 euro in accordance with generally accepted accounting standards. For financial statement reporting purposes, the USD is the reporting currency. As a result, the financial records of the Trust are translated from euro 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 euro. 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 euro 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 euro effective on the first business day of the subsequent month. The Trustee will direct that the excess euro 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. Euro Deposits

Euro principal deposits are held in a euro-denominated, interest-bearing demand account. The interest rate in effect as of January 31, 2013 was an annual nominal rate of 0.00%. For the three months ended January 31, 2013, there were euro principal deposits of 238,182,268, euro principal redemptions of 238,197,717 and euro withdrawals (to pay expenses) of 200,733, resulting in an ending euro principal balance of 203,465,979. This equates to 276,184,540 USD (which includes USD subscriptions receivable). For the year ended October 31, 2012, there were euro principal deposits of 1,278,954,563, euro principal redemptions of 1,258,988,057 and euro withdrawals (to pay expenses) of 558,994, resulting in an ending euro principal balance of 203,682,161. This equates to 263,931,355 USD.

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

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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 euro. 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:

	Three months ended January 31, 2013 (Unaudited)		Year ended October 31, 2012	
	Shares	U.S. Dollar Amount	Shares	U.S. Dollar Amount
Opening balance	2,050,000	\$ 263,827,113	1,850,000	\$ 257,096,734
Shares issued	2,400,000	311,502,279	12,850,000	1,652,638,909
Shares redeemed	(2,400,000)	(311,522,484)	(12,650,000)	(1,626,832,329)
Adjustment to period Shares due to currency movement and other		12,283,377		(19,076,201)
Ending balance	2,050,000	\$ 276,090,285	2,050,000	\$ 263,827,113

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 euro held by the Trust (including all unpaid interest accrued through the preceding day) and calculates the value of the euro 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 euro, 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 euro 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 euro, which creates a concentration risk associated with fluctuations in the price of euro. Accordingly, a decline in the euro 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 euro 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. The price of euro has fluctuated widely over the past several years, and volatility has increased in recent months due, in part, to concern over the sovereign debt levels of certain European Union members and the potential impact of this debt on the composition of the European Union members and the value of the euro. Substantial sales of euro by the official sector (central banks, other governmental agencies and related institutions that buy, sell and hold euro as part of their reserve assets) could adversely affect an investment in the Shares. All of the Trust's euro 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 repor