

CURRENCYSHARES CANADIAN DOLLAR TRUST

Form 10-Q

March 11, 2011

Table of Contents

**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, 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 001-32910

**CurrencyShares<sup>®</sup> Canadian Dollar 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

incorporation or organization)

No. 06-6551776  
(IRS Employer

Identification No.)

805 King Farm Boulevard, Suite 600

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**Rockville, Maryland 20850**

**(Address of principal executive offices) (Zip Code)**

**(301) 296-5100**

**(Registrant's telephone number, including area code)**

**9601 Blackwell Road, Suite 500**

**Rockville, Maryland 20850**

**(Former name, former address and former fiscal year, if changed since last report)**

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

**Table of Contents**

**CURRENCYSHARES® CANADIAN DOLLAR TRUST**

**INDEX**

<b>Caption</b>	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements (Unaudited)</u></b>	
<u>Statements of Financial Condition at January 31, 2011 and October 31, 2010</u>	2
<u>Statements of Income and Comprehensive Income for the three months ended January 31, 2011 and the three months ended January 31, 2010</u>	3
<u>Statements of Changes in Shareholders' Equity for the three months ended January 31, 2011 and the year ended October 31, 2010</u>	4
<u>Statements of Cash Flows for the three months ended January 31, 2011 and the three months ended January 31, 2010</u>	5
<u>Notes to Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	14
<u>Items 4. Controls and Procedures</u>	14
<b><u>Part II OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	15
<u>Item 1A. Risk Factors</u>	15
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	15
<u>Item 3. Defaults Upon Senior Securities</u>	15
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	15
<u>Item 5. Other Information</u>	15
<u>Item 6. Exhibits</u>	16
<b><u>SIGNATURES</u></b>	17

**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****CurrencyShares® Canadian Dollar Trust****Statements of Financial Condition**

	January 31, 2011 (Unaudited)	October 31, 2010
<b><u>Assets</u></b>		
Current Assets:		
Canadian Dollar deposits, interest bearing	\$ 601,441,033	\$ 571,643,155
Canadian Dollar deposits, non-interest bearing	1,168	
Subscription receivable	4,971,018	
Receivable from accrued interest	250,649	242,867
<b>Total Current Assets</b>	<b>\$ 606,663,868</b>	<b>\$ 571,886,022</b>
<b><u>Liabilities, Redeemable Capital Shares and Shareholders' Equity</u></b>		
Current Liabilities:		
Canadian Dollar deposits, non-interest bearing, overdrawn	\$	\$ 831
Accrued Sponsor's fee	199,708	197,746
<b>Total Current Liabilities</b>	<b>199,708</b>	<b>198,577</b>
Commitments and Contingent Liabilities (note 9)		
Redeemable Capital Shares, at redemption value, no par value, 16,500,000 authorized, 6,100,000 and 5,850,000 issued and outstanding, respectively	606,464,160	571,687,445
Shareholders' Equity:		
Retained Earnings		
Cumulative Translation Adjustment		
<b>Total Liabilities, Redeemable Capital Shares and Shareholders' Equity</b>	<b>\$ 606,663,868</b>	<b>\$ 571,886,022</b>

*See Notes to Financial Statements.*

**Table of Contents****CurrencyShares® Canadian Dollar Trust****Statements of Income and Comprehensive Income****(Unaudited)**

	<b>Three months ended January 31, 2011</b>	<b>Three months ended January 31, 2010</b>
<b><u>Income</u></b>		
Interest Income	\$ 761,733	\$
Total Income	761,733	
<b><u>Expenses</u></b>		
Sponsor's fee	(604,056)	(586,702)
Total Expenses	(604,056)	(586,702)
Net Income/(Loss)	\$ 157,677	\$ (586,702)
Other Comprehensive Income:		
Currency translation adjustment	718	7,158
Total Comprehensive Income/(Loss)	\$ 158,395	\$ (579,544)
Basic and Diluted Earnings per share	\$ 0.03	\$ (0.10)
Weighted-average Shares Outstanding	6,064,674	6,144,022
Cash Dividends per Share	\$ 0.02	\$

*See Notes to Financial Statements.*

**Table of Contents****CurrencyShares® Canadian Dollar Trust****Statements of Changes in Shareholders' Equity**

	<b>Three months ended January 31, 2011 (Unaudited)</b>	<b>Year ended October 31, 2010</b>
Retained Earnings, Beginning of Period	\$	\$
Net Income/(Loss)	157,677	(1,719,630)
Distributions Paid	(150,933)	(15,997)
Adjustment of redeemable capital shares to redemption value	(6,744)	1,735,627
Retained Earnings, End of Period	\$	\$
Cumulative Translation Adjustment, Beginning of Period	\$	\$
Currency translation adjustment	718	(7,589)
Adjustment of redeemable capital shares to redemption value	(718)	7,589
Cumulative Translation Adjustment, End of Period	\$	\$

*See Notes to Financial Statements.*

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

	<b>Three months ended January 31, 2011</b>	<b>Three months ended January 31, 2010</b>
<b>Cash flows from operating activities</b>		
Cash received for accrued income	\$ 758,180	\$
Cash paid for expenses	(605,518)	(566,286)
Net cash provided by/(used in) operating activities	152,662	(566,286)
<b>Cash flows from financing activities</b>		
Cash received to purchase redeemable shares	\$ 89,070,841	\$ 52,085,877
Cash paid to redeem redeemable shares	(69,278,250)	(18,944,492)
Cash paid for distributions	(150,933)	
Net cash provided by financing activities	19,641,658	33,141,385
Adjustment to period cash flows due to currency movement	10,005,557	5,755,379
Increase in cash	29,799,877	38,330,478
Cash at beginning of period	571,642,324	560,327,680
Cash at end of period	\$ 601,442,201	\$ 598,658,158
<b>Reconciliation of net income/(loss) to net cash (used in)/provided by operating activities</b>		
Net income/(loss)	\$ 157,677	\$ (586,702)
Adjustments to reconcile net (loss)/income to net cash provided by/(used in) operating activities:		
Receivable from accrued interest	(250,649)	
Prior period receivable from accrued interest	242,867	
Currency translation adjustment	805	(1,686)
Accrued sponsor fee	199,708	198,327
Prior period accrued sponsor fee	(197,746)	(176,225)
Net cash provided by/(used in) operating activities	\$ 152,662	\$ (566,286)

*See Notes to Financial Statements.*

**Table of Contents**

**CurrencyShares® Canadian Dollar Trust**

**Notes to Financial Statements**

**(Unaudited)**

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

The CurrencyShares® Canadian Dollar 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 Canadian Dollars 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 Rydex Advisors II, 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 Canadian Dollar 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 Canadian Dollars. The Trust's assets primarily consist of Canadian Dollars 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 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. Prior to November 13, 2008, Canadian Dollar deposits (cash) were translated for NAV calculation purposes at the Noon Buying Rate, which was the U.S. Dollar (USD)/Canadian Dollar exchange rate as determined and published by the Federal Reserve Bank of New York. As of November 13, 2008, Canadian Dollar deposits (cash) are translated for NAV calculation purposes at the Closing Spot Rate, which is the USD/Canadian Dollar exchange rate as determined by WM/Reuters 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 Canadian Dollar 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 Canadian Dollars 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 statement of income and comprehensive income and the statement of cash flows. Any currency translation adjustment is included in comprehensive income.





## **Table of Contents**

### **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 Canadian Dollars. 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 Canadian Dollars 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 Canadian Dollars effective on the first business day of the subsequent month. The Trustee will direct that the excess Canadian Dollars 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). An income distribution of \$0.00860 per share with an ex-dividend date of February 1, 2011 was paid on February 8, 2011.

### **3. Canadian Dollar Deposits**

Canadian Dollar principal deposits are held in a Canadian Dollar-denominated, interest-bearing demand account. For the three months ended January 31, 2011, there were Canadian Dollar principal deposits of 94,464,764 and Canadian Dollar principal redemptions of 69,605,616 resulting in an ending Canadian Dollar principal balance of 606,563,223. This equates to 606,411,620 USD (which is net of USD subscriptions receivable). For the year ended October 31, 2010, there were Canadian Dollar principal deposits of 258,756,507, Canadian Dollar principal redemptions of 273,609,094 and Canadian Dollar withdrawals (to pay expenses) of 2,041,470 resulting in an ending Canadian Dollar principal balance of 581,704,075. This equates to 571,643,155 USD.

**Table of Contents**

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

**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 Canadian Dollars. 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 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		Year ended	
	January 31, 2011 (Unaudited)		October 31, 2010	
	Shares	U.S. Dollar Amount	Shares	U.S. Dollar Amount
<b>Opening balance</b>	5,850,000	\$ 571,687,445	6,000,000	\$ 555,522,004
Shares issued	950,000	94,019,349	2,600,000	249,212,202
Shares redeemed	(700,000)	(69,278,250)	(2,750,000)	(263,517,597)
Adjustment to period Shares due to currency movement and other		10,035,616		30,470,836
<b>Ending balance</b>	6,100,000	\$ 606,464,160	5,850,000	\$ 571,687,445

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 Canadian Dollars held by the Trust (including all unpaid interest accrued, if any, through the preceding day) and calculates the value of the Canadian Dollars 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 Canadian Dollars, 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.

## **Table of Contents**

### **5. Sponsor's Fee**

The Sponsor's fee accrues daily at an annual nominal rate of 0.40% of the Canadian Dollars 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.

### **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 Canadian Dollars, which creates a concentration risk associated with fluctuations in the price of the Canadian Dollar. Accordingly, a decline in the Canadian Dollar 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 Canadian Dollar 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 Canadian Dollars by the official sector (central banks, other governmental agencies and related institutions that buy, sell and hold Canadian Dollars as part of their reserve assets) could adversely affect an investment in the Shares.

All of the Trust's Canadian Dollars 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.

**Table of Contents**

**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 Canadian Dollar, as the value of the Shares relates directly to the value of the Canadian Dollars 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 in this report for a description of other risks and uncertainties that may affect an investment in the Shares.

Neither Rydex Specialized Products LLC d/b/a Rydex 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**