

CURRENCYSHARES BRITISH POUND STERLING TRUST

Form 10-K/A

March 10, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-K/A
Amendment No. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 31, 2010

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[®] British Pound Sterling 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. 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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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

Aggregate market value of 850,000 shares of registrant's common stock held by non-affiliates of the registrant, based on the closing price of a share of the registrant's common stock on April 30, 2010 as reported by NYSE Arca on that date: \$129,531,500.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A to the Annual Report on Form 10-K for the year ended October 31, 2010 of CurrencyShares® British Pound Sterling Trust, which Form 10-K was originally filed with the Securities and Exchange Commission on January 14, 2011, is being filed for the purpose of amending Item 15 in order to (i) include the report and consent of our prior independent registered public accounting firm, (ii) amend the Exhibit Index and (iii) file certain exhibits as indicated in the Exhibit Index. Other than providing updates to the cover page, amending Item 15 and filing updated exhibits and certifications, no other changes have been made to the original Form 10-K. This Amendment No. 1 does not reflect any subsequent events occurring after the filing of the original Form 10-K or modify or update in any way disclosures made in the original filing.

Table of Contents**PART IV****Item 15. Exhibits and Financial Statement Schedules.
Financial Statements**

See Index to Financial Statements on Page F-1 for a list of the financial statements being filed as a part of this report. Schedules have been omitted since they are either not required, not applicable or the information has otherwise been included.

Exhibits

| Exhibit No. | Description |
|--------------------|--|
| 3.1 | Certificate of Formation of Rydex Specialized Products LLC, incorporated herein by reference to Exhibit 3.1 filed with Form S-1 Registration Statement (File number 333-132361) filed on March 13, 2006. |
| 3.2 | Limited Liability Company Agreement of Rydex Specialized Products LLC, incorporated herein by reference to Exhibit 3.2 filed with Form S-1 Registration Statement (File number 333-132361) filed on March 13, 2006. |
| 4.1 | Depository Trust Agreement dated as of June 8, 2006 among Rydex Specialized Products LLC, The Bank of New York, all registered owners and beneficial owners of British Pound Sterling Currency Shares issued thereunder and all depositors. |
| 4.2 | Amendment to Depository Trust Agreement dated as of November 13, 2008 between Rydex Specialized Products LLC and The Bank of New York Mellon, incorporated herein by reference to Exhibit 4.1 filed with Form 10-Q on September 9, 2010. |
| 4.3 | Participant Agreement dated as of March 25, 2010 among Knight Clearing Services, LLC, The Bank of New York, and Rydex Specialized Products LLC (together with Schedule pursuant to Instruction 2 to Item 601 of Regulation S-K). |
| 4.4 | Amendment to Participant Agreements dated as of December 9, 2010 between The Bank of New York Mellon, the trusts set forth on Schedule A thereto and Rydex Specialized Products LLC. |
| 4.5 | Amendment to Participant Agreements dated as of January 15, 2011 between The Bank of New York, the trusts set forth on Schedule A thereto and Rydex Specialized Products LLC. |
| 10.1 | Deposit Account Agreement dated as of June 8, 2006 between The Bank of New York and the London Branch of JPMorgan Chase Bank, N.A. |
| 10.2 | Amendment to Deposit Account Agreement dated as of November 13, 2008 between The Bank of New York Mellon and the London Branch of JPMorgan Chase Bank, N.A., incorporated herein by reference to Exhibit 10.1 filed with Form 10-Q on September 9, 2010. |
| 10.3 | Sublicense Agreement dated as of June 9, 2006 between PADCO Advisors II, Inc. and Rydex Specialized Products LLC. |
| 23.1 | Consent of PricewaterhouseCoopers LLP. |
| 23.2 | Consent of Ernst & Young LLP. |
| 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. |

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- 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.

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CurrencyShares® British Pound Sterling Trust

Financial Statements as of October 31, 2010

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Report of Independent Registered Public Accounting Firm

To the Shareholders of CurrencyShares® British Pound Sterling Trust:

In our opinion, the balance sheet as of October 31, 2009 and the related statements of income and comprehensive income, of changes in shareholders' equity and of cash flows for each of two years in the period ended October 31, 2009 present fairly, in all material respects, the financial position of CurrencyShares® British Pound Sterling Trust (the Trust) at October 31, 2009, and the results of its operations and its cash flows for each of the two years in the period ended October 31, 2009, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Baltimore, Maryland

January 14, 2010

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Report of Independent Registered Public Accounting Firm

To the Shareholders of CurrencyShares® British Pound Sterling Trust:

We have audited the accompanying statement of financial condition of CurrencyShares® British Pound Sterling Trust (the Trust) at October 31, 2010 and the related statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CurrencyShares® British Pound Sterling Trust at October 31, 2010 and the and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of CurrencyShares® British Pound Sterling Trust's internal control over financial reporting as of October 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated January 14, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, VA

January 14, 2011

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Report of Independent Registered Public Accounting Firm

To the Shareholders of CurrencyShares® British Pound Sterling Trust:

We have audited CurrencyShares® British Pound Sterling Trust's (the Trust) internal control over financial reporting as of October 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CurrencyShares® British Pound Sterling Trust's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting appearing under Item 9A. Our responsibility is to express an opinion on the Trust's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CurrencyShares® British Pound Sterling Trust maintained, in all material respects, effective internal control over financial reporting as of October 31, 2010 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statement of financial condition as of October 31, 2010 and the related statements of income and comprehensive income, changes in shareholder equity and cash flows for the year ended October 31, 2010 of CurrencyShares® British Pound Sterling Trust and our report dated January 14, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia

January 14, 2011

Table of Contents**CurrencyShares® British Pound Sterling Trust****Statements of Financial Condition**

| | October 31, 2010 | October 31, 2009 |
|--|------------------|------------------|
| Assets | | |
| Current Assets: | | |
| British Pound Sterling deposits, interest bearing | \$ 111,364,930 | \$ 139,827,043 |
| British Pound Sterling deposits, non-interest bearing | | |
| Receivable from accrued interest | 16,264 | 9,853 |
| Total Current Assets | \$ 111,381,194 | \$ 139,836,896 |
| Liabilities, Redeemable Capital Shares and Shareholders' Equity | | |
| Current Liabilities: | | |
| Accrued Sponsor's fee | 44,627 | 50,380 |
| Total Current Liabilities | 44,627 | 50,380 |
| Commitments and Contingent Liabilities (note 9) | | |
| Redeemable Capital Shares, at redemption value, no par value, 13,000,000 and 8,000,000 authorized, respectively 700,000 and 850,000 issued and outstanding, respectively | 111,336,567 | 139,786,516 |
| Shareholders' Equity: | | |
| Retained Earnings | | |
| Cumulative Translation Adjustment | | |
| Total Liabilities, Redeemable Capital Shares and Shareholders' Equity | \$ 111,381,194 | \$ 139,836,896 |

See Notes to Financial Statements.

Table of Contents**CurrencyShares® British Pound Sterling Trust****Statements of Income and Comprehensive Income**

| | Year ended October 31, 2010 | Year ended October 31, 2009 | Year ended October 31, 2008 |
|--------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <u>Income</u> | | | |
| Interest Income | \$ 137,295 | \$ 442,286 | \$ 5,517,682 |
| Total Income | 137,295 | 442,286 | 5,517,682 |
| <u>Expenses</u> | | | |
| Sponsor's fee | (503,728) | (518,481) | (461,145) |
| Total Expenses | (503,728) | (518,481) | (461,145) |
| Net (Loss)/Income | \$ (366,433) | \$ (76,195) | \$ 5,056,537 |
| Other Comprehensive Loss: | | | |
| Currency translation adjustment | (3,975) | (15,236) | (143,547) |
| Total Comprehensive (Loss)/Income | \$ (370,408) | \$ (91,431) | \$ 4,912,990 |
| Basic and Diluted Earnings per share | \$ (0.45) | \$ (0.09) | \$ 8.58 |
| Weighted-average Shares Outstanding | 811,233 | 839,315 | 589,208 |
| Cash Dividends per Share | \$ | \$ 0.72 | \$ 9.13 |

See Notes to Financial Statements.

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

| | Year ended October 31, 2010 | Year ended October 31, 2009 | Year ended October 31, 2008 |
|---|--------------------------------|--------------------------------|--------------------------------|
| Retained Earnings, Beginning of Year | \$ | \$ | \$ |
| Net (Loss)/Income | (366,433) | (76,195) | 5,056,537 |
| Distributions Paid | | (625,429) | (5,370,991) |
| Adjustment of redeemable capital shares to redemption value | 366,433 | 701,624 | 314,454 |
| Retained Earnings, End of Year | \$ | \$ | \$ |
| Cumulative Translation Adjustment, Beginning of Year | \$ | \$ | \$ |
| Currency translation adjustment | (3,975) | (15,236) | (143,547) |
| Adjustment of redeemable capital shares to redemption value | 3,975 | 15,236 | 143,547 |
| Cumulative Translation Adjustment, End of Year | \$ | \$ | \$ |

See Notes to Financial Statements.

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

| | Year ended October 31, 2010 | Year ended October 31, 2009 | Year ended October 31, 2008 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Cash flows from operating activities | | | |
| Cash received for accrued income | \$ 131,026 | \$ 891,389 | \$ 5,612,544 |
| Cash paid for expenses | (507,345) | (511,526) | (456,084) |
| Net cash (used in)/provided by operating activities | (376,319) | 379,863 | 5,156,460 |
| Cash flows from financing activities | | | |
| Cash received to purchase redeemable shares | 232,490,556 | 270,097,103 | 535,076,549 |
| Cash paid to redeem redeemable shares | (255,726,018) | (246,906,124) | (564,148,567) |
| Cash paid for distributions | | (625,429) | (5,370,991) |
| Net cash (used in)/provided by financing activities | (23,235,462) | 22,565,550 | (34,443,009) |
| Adjustment to period cash flows due to currency movement | (4,850,332) | 3,771,941 | (34,322,354) |
| (Decrease)/Increase in cash | (28,462,113) | 26,717,354 | (63,608,903) |
| Cash at beginning of year | 139,827,043 | 113,109,689 | 176,718,592 |
| Cash at end of year | \$ 111,364,930 | \$ 139,827,043 | \$ 113,109,689 |
| Reconciliation of net (loss)/income to net cash provided by operating activities | | | |
| Net (loss)/income | \$ (366,433) | \$ (76,195) | \$ 5,056,537 |
| Adjustments to reconcile net (loss)/income to net cash (used in)/provided by operating activities: | | | |
| Receivable from accrued interest | (16,264) | (9,853) | (464,681) |
| Prior period receivable from accrued interest | 9,853 | 464,681 | 687,607 |
| Currency translation adjustment | 2,278 | (3,311) | (117,826) |
| Accrued sponsor fee | 44,627 | 50,380 | 45,839 |
| Prior period accrued sponsor fee | (50,380) | (45,839) | (51,016) |
| Net cash (used in)/provided by operating activities | \$ (376,319) | \$ 379,863 | \$ 5,156,460 |

See Notes to Financial Statements.

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CurrencyShares® British Pound Sterling Trust

Notes to Financial Statements

1. Organization and Description of the Trust

The CurrencySharesSM British Pound Sterling 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 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 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 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 audited financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

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, British Pound Sterling deposits (cash) were translated for NAV calculation purposes at the Noon Buying Rate, which was the U.S. Dollar (USD)/British Pound Sterling exchange rate as determined and published by the Federal Reserve Bank of New York. 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 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 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 statement of income and comprehensive income and the statement 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 year ended October 31, 2010, there were British Pound Sterling principal deposits of 149,425,128, British Pound Sterling principal redemptions of 164,358,903 and British Pound Sterling withdrawals (to pay expenses) of 241,866 resulting in an ending British Pound Sterling principal balance of 69,655,423. This equates to 111,364,930 USD. For the year ending October 31, 2009, there were British Pound Sterling principal deposits of 174,902,200, British Pound Sterling principal redemptions of 159,879,416 and British Pound Sterling withdrawals (to pay expenses) of 191,720 resulting in an ending British Pound Sterling principal balance of 84,831,064. This equates to 139,827,043 USD. For the year ending October 31, 2008, there were British Pound Sterling principal deposits of 275,000,000 and British Pound Sterling principal redemptions of 290,000,000 resulting in an ending British Pound Sterling principal balance of 70,000,000. This equates to 113,155,000 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.

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:

| | Year ended October 31, 2010 | | Year ended October 31, 2009 | | Year ended October 31, 2008 | |
|---|--------------------------------|-----------------------|--------------------------------|-----------------------|--------------------------------|-----------------------|
| | Shares | U.S. Dollar Amount | Shares | U.S. Dollar Amount | Shares | U.S. Dollar Amount |
| Opening balance | 850,000 | \$ 139,786,516 | 700,000 | \$ 113,528,531 | 850,000 | \$ 177,355,183 |
| Shares issued | 1,500,000 | 232,490,556 | 1,750,000 | 270,097,103 | 2,750,000 | 535,076,549 |
| Shares redeemed | (1,650,000) | (255,726,018) | (1,600,000) | (246,906,124) | (2,900,000) | (564,148,567) |
| Adjustment to period Shares due to currency movement and other | | (5,214,487) | | 3,067,006 | | (34,754,634) |
| Ending balance | 700,000 | \$ 111,336,567 | 850,000 | \$ 139,786,516 | 700,000 | \$ 113,528,531 |

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.

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Fiscal Period Ended October 31, 2010:

| | Three months ended October 31, 2010 | Three months ended July 31, 2010 | Three months ended April 30, 2010 | Three months ended January 31, 2010 |
|--------------------------------------|---|--|--|---|
| <u>Income</u> | | | | |
| Interest income | \$ 47,182 | \$ 34,169 | \$ 28,289 | \$ 27,655 |
| Total Income | 47,182 | 34,169 | 28,289 | 27,655 |
| <u>Expenses</u> | | | | |
| Sponsor's fee | (141,078) | (116,159) | (113,051) | (133,440) |
| Total Expenses | (141,078) | (116,159) | (113,051) | (133,440) |
| Net Loss | \$ (93,896) | \$ (81,990) | \$ (84,762) | \$ (105,785) |
| Other Comprehensive (Loss)/Income: | | | | |
| Currency translation adjustment | (1,728) | (4,147) | 39 | 1,861 |
| Total Comprehensive Loss | \$ (95,624) | \$ (86,137) | \$ (84,723) | \$ (103,924) |
| Basic and Diluted Earnings per Share | \$ (0.10) | \$ (0.11) | \$ (0.11) | \$ (0.13) |
| Weighted-average Shares Outstanding | 895,652 | 773,370 | 764,045 | 810,326 |
| Cash Dividends per Share | \$ | \$ | \$ | \$ |

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Fiscal Period Ended October 31, 2009:

| | Three months ended October 31, 2009 | Three months ended July 31, 2009 | Three months ended April 30, 2009 | Three months ended January 31, 2009 |
|---|---|--|--|---|
| Income | | | | |
| Interest income | \$ 25,453 | \$ 18,039 | \$ 59,619 | \$ 339,175 |
| Total Income | 25,453 | 18,039 | 59,619 | 339,175 |
| Expenses | | | | |
| Sponsor's fee | (160,129) | (155,471) | (115,554) | (87,327) |
| Total Expenses | (160,129) | (155,471) | (115,554) | (87,327) |
| Net (Loss)/Income | \$ (134,676) | \$ (137,432) | \$ (55,935) | \$ 251,848 |
| Other Comprehensive Loss: | | | | |
| Currency translation adjustment | (1,120) | (4,557) | (1,444) | (8,115) |
| Total Comprehensive (Loss)/Income | \$ (135,796) | \$ (141,989) | \$ (57,379) | \$ 243,733 |
| Basic and Diluted Earnings per Share | \$ (0.14) | \$ (0.14) | \$ (0.07) | \$ 0.43 |
| Weighted-average Shares Outstanding | 972,283 | 958,696 | 834,831 | 591,304 |
| Cash Dividends per Share | \$ | \$ | \$ 0.07 | \$ 0.92 |

6. 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.

7. 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.

8. 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

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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.

9. 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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 in the City of Rockville, State of Maryland, on March 10, 2011.

CURRENCYSHARES® BRITISH POUND STERLING TRUST

By Rydex Specialized Products LLC Sponsor of the CurrencyShares® British Pound Sterling Trust

By: /s/ NICK BONOS
Nick Bonos

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities* and on the dates indicated.

| Signature | Capacity | Date |
|--|--|----------------|
| /s/ NICK BONOS Nick Bonos | Director and Chief Executive Officer (principal executive officer) | March 10, 2011 |
| /s/ JOSEPH ARRUDA Joseph Arruda | Director and Chief Financial Officer (principal financial officer and principal accounting officer) | March 10, 2011 |
| /s/ MICHAEL BYRUM Michael Byrum | Director | March 10, 2011 |

* The registrant is a trust and the persons are signing in their capacities as officers or directors of Rydex Specialized Products LLC, the Sponsor of the registrant.