

CURRENCYSHARES BRITISH POUND STERLING TRUST
Form 10-Q
September 15, 2008

**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 July 31, 2008

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

CurrencySharesSM 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.)

9601 Blackwell Road, Suite 500 Rockville, Maryland 20850
(Address of principal executive offices) (Zip Code)

(301) 296-5100
(Registrant's telephone number, including area code)

N/A

(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

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Item 1. FINANCIAL STATEMENTS

CurrencySharesSM British Pound Trust

Statements of Financial Condition

| <u>Assets</u> | July 31, 2008 (Unaudited) | October 31, 2007 |
|----------------------------------------------|--------------------------------------|-------------------------|
| Current Assets | | |
| British Pound deposits, interest bearing | \$ 108,933,000 | \$ 176,604,500 |
| British Pound deposits, non-interest bearing | 29,929 | 114,092 |

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| | July 31, 2008 (Unaudited) | October 31, 2007 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------|
| Receivable from accrued interest | 396,605 | 687,607 |
| Total Assets | \$ 109,359,534 | \$ 177,406,199 |
| <u>Liabilities and Shareholders' Equity</u> | | |
| Current Liabilities | | |
| Accrued Sponsor's fee | \$ 34,159 | \$ 51,016 |
| Total Liabilities | 34,159 | 51,016 |
| Commitments and Contingent Liabilities (note 8) | -- | -- |
| Redeemable Capital Shares, at redemption value, no par value, 8,000,000 authorized - 550,000 and 850,000 issued and outstanding, respectively | 109,325,375 | 177,355,183 |
| Shareholders' Equity - Retained Earnings and Cumulative Translation Adjustment | -- | -- |
| Total Liabilities and Shareholders' Equity | \$ 109,359,534 | \$ 177,406,199 |

See Notes to Financial Statements.

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CurrencySharesSM British Pound Trust

Statements of Income and Comprehensive Income
(Unaudited)

| | Three months ended July 31, 2008 | Nine months ended July 31, 2008 | Three months ended July 31, 2007 | Nine months ended July 31, 2007 |
|---------------------------------|----------------------------------------|---------------------------------------|----------------------------------------|---------------------------------------|
| <u>Income</u> | | | | |
| Interest Income | \$ 1,107,812 | \$ 4,095,400 | \$ 969,976 | \$ 2,375,821 |
| Total Income | 1,107,812 | 4,095,400 | 969,976 | 2,375,821 |
| <u>Expenses</u> | | | | |
| Sponsor's fee | (95,139) | (330,324) | (72,459) | (188,983) |
| Total Expenses | (95,139) | (330,324) | (72,459) | (188,983) |
| Net Income | \$ 1,012,673 | \$ 3,765,076 | \$ 897,517 | \$ 2,186,838 |
| Other Comprehensive Income | | | | |
| Currency translation adjustment | 3,129 | (16,742) | 15,514 | 32,833 |
| | \$ 1,015,802 | \$ 3,748,334 | \$ 913,031 | \$ 2,219,671 |

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| | Three months ended July 31, 2008 | Nine months ended July 31, 2008 | Three months ended July 31, 2007 | Nine months ended July 31, 2007 |
|----------------------------------------|----------------------------------------|---------------------------------------|----------------------------------------|---------------------------------------|
| Total Comprehensive Income | | | | |
| Earnings per Share | \$ 2.09 | \$ 6.93 | \$ 2.44 | \$ 6.77 |
| Weighted-average Shares Outstanding | 484,783 | 543,248 | 367,935 | 322,894 |
| Cash Dividends per Share | \$ 1.95 | \$ 7.66 | \$ 1.91 | \$ 6.12 |

See Notes to Financial Statements.

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CurrencySharesSM British Pound Trust

Statements of Changes in Shareholders Equity

| | Nine months ended July 31, 2008 (Unaudited) | Year ended October 31, 2007 |
|-------------------------------------------------------------|------------------------------------------------------|--------------------------------|
| Retained Earnings Balance, Beginning of Period | \$ -- | \$ -- |
| Net Income | 3,765,076 | 3,856,250 |
| Distributions Paid | (4,152,867) | (3,708,084) |
| Adjustment of redeemable capital shares to redemption value | 387,791 | (148,166) |
| Retained Earnings Balance, End of Period | \$ -- | \$ -- |
| Cumulative Translation Adjustment, Beginning of Period | \$ -- | \$ -- |
| Currency translation adjustment | (16,742) | 75,856 |
| Adjustment of redeemable capital shares to redemption value | 16,742 | (75,856) |
| Cumulative Translation Adjustment, End of Period | \$ -- | \$ -- |

See Notes to Financial Statements.

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CurrencySharesSM British Pound TrustStatements of Cash Flows
(Unaudited)

| | Nine months ended July 31, 2008 | Nine months ended July 31, 2007 |
|----------------------------------------------------------------------------------|---------------------------------------|---------------------------------------|
| Cash flows from operating activities | | |
| Cash received for accrued income | \$ 4,350,657 | \$ 2,152,425 |
| Cash paid for expenses | (344,616) | (177,194) |
| Net cash provided by operating activities | 4,006,041 | 1,975,231 |
| Cash flows from financing activities | | |
| Cash received to purchase redeemable shares | 339,379,250 | 108,659,418 |
| Cash paid to redeem redeemable shares | (399,065,701) | (29,656,161) |
| Cash paid for distributions | (4,152,867) | (1,975,231) |
| Net cash (used in)/provided by financing activities | (63,839,318) | 77,028,026 |
| Adjustment to period cash flows due to currency movement | (7,922,386) | 6,494,560 |
| (Decrease)/increase in cash | (67,755,663) | 85,497,817 |
| Cash at beginning of period | 176,718,592 | 57,252,000 |
| Cash at end of period | \$ 108,962,929 | \$ 142,749,817 |
| Reconciliation of net income to net cash provided by operating activities | | |
| Net income | \$ 3,765,076 | \$ 2,186,838 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Increase in receivable from accrued interest | (396,605) | (458,036) |
| Decrease in prior period receivable from accrued interest | 687,607 | 216,666 |
| Currency translation adjustment | (33,180) | 16,466 |
| Increase in accrued sponsor fee | 34,159 | 32,785 |
| Decrease in prior period accrued sponsor fee | (51,016) | (19,488) |
| Net cash provided by operating activities | \$ 4,006,041 | \$ 1,975,231 |

See Notes to Financial Statements.

Notes to Financial Statements(Unaudited)

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 in the Trust's primary deposit account

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held by JPMorgan Chase Bank N.A., London Branch (the Depository). The Sponsor is a Delaware limited liability company whose sole member is PADCO Advisors II, Inc. (also d/b/a Rydex Investments). The Sponsor is responsible for, among other things, overseeing the performance of The Bank of New York (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 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. The Trust's assets primarily consist of British Pounds on demand deposit in two deposit accounts maintained by the Depository: a primary deposit account which earns interest and a secondary deposit account which does not earn interest. The secondary deposit account is used to account for interest 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 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 29, 2008.

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. 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. For NAV calculation purposes, British Pound Deposits (cash) are translated at the Noon Buying Rate, which is the U.S. Dollar (USD) / British Pound exchange rate as determined and published by the Federal Reserve Bank of New York as of 12:00 PM (New York time) on each day that NYSE Arca is open for regular trading.

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The functional currency of the Trust is the British Pound in accordance with Financial Accounting Standard (FAS) 52, Foreign Currency Translation. For financial statement reporting purposes, the U.S. Dollar is the reporting currency. As a result, the financial statements are translated from British Pounds to USD. The Noon Buying Rate on the last day of the period is used for translation in the statements of financial condition. The average Noon Buying 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.

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 shares of the Trust's income, if any, and as if they directly incurred their respective pro-rata shares 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 share 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

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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 gain (if any) upon the sale of British Pounds and interest income. 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 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 share 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.

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D. Revenue Recognition

Interest on the primary deposit account 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, the excess interest earned in British Pounds effective on the first business day of the subsequent month. The Trustee will direct that the excess British Pounds 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). For the month of July 2008, an income distribution of \$0.71388 per share was paid on August 8, 2008.

3. British Pound Deposits

British Pound principal deposits are held in a British Pound-denominated, interest-bearing demand account. For the nine months ended July 31, 2008, there were British Pound principal deposits of 170,000,000 and British Pound principal redemptions of 200,000,000 resulting in an ending British Pound principal balance of 55,000,000. This equates to 108,933,000 USD. For the year ended October 31, 2007, there were British Pound principal deposits of 185,000,000 and British Pound principal redemptions of 130,000,000 resulting in an ending British Pound principal balance of 85,000,000. This equated to 176,604,500 USD. In addition, net interest associated with creation and redemption activity is held in a British Pound-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 British Pounds. 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.

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Activity in redeemable capital Shares is as follows:

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| | Nine months ended July 31, 2008 | | Year Ended October 31, 2007 | |
|-------------------------------------------------------------------|------------------------------------|-----------------------|--------------------------------|-----------------------|
| | Shares | U.S. Dollar Amount | Shares | U.S. Dollar Amount |
| Opening balance | 850,000 | \$ 177,355,183 | 300,000 | \$ 57,449,178 |
| Shares issued | 1,700,000 | 339,379,250 | 1,850,000 | 368,003,596 |
| Shares redeemed | (2,000,000) | (399,065,701) | (1,300,000) | (258,491,973) |
| Adjustment to period Shares due to currency movement and other | -- | (8,343,357) | -- | 10,394,382 |
| Ending redemption balance | 550,000 | \$ 109,325,375 | 850,000 | \$ 177,355,183 |

The Trustee will calculate the Trust's NAV each business day. To calculate the NAV, the Trustee will subtract the Sponsor's accrued fee through the previous day from the British Pounds held by the Trust (including all unpaid interest accrued through the preceding day) and calculate the value of the British Pounds in USD based upon the Noon Buying Rate. If, on a particular evaluation day, the Noon Buying Rate has not been determined and announced by 2:00 PM (New York time), then the most recent Federal Reserve Bank of New York determination of the Noon Buying Rate shall 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 such valuation. In the event that the Trustee and the Sponsor determine that the most recent Federal Reserve Bank of New York determination of the Noon Buying Rate is not an appropriate basis for valuation of the Trust's British Pounds, they shall determine an alternative basis for such evaluation to be employed by the Trustee. The Trustee also determines the NAV per Share, which equals the NAV of the Trust divided by the number of outstanding Shares. Shares deliverable under a purchase order are considered outstanding for purposes of determining NAV per Share; Shares deliverable under a redemption order are not considered outstanding for this purpose.

5. Sponsor's Fee

The Sponsor's fee accrues daily at an annual nominal rate of 0.40% of the British Pounds 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. The Sponsor has also paid the costs of the Trust's organization and the initial sales of the Shares, which were approximately \$347,000 when the Trust was formed.

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. The Sponsor has paid the costs of the Trust's organization and the initial sales of the Shares, as described in Note 5.

7. Concentration Risk

All of the Trust's assets are British Pounds, which creates a concentration risk associated with fluctuations in the price of the British Pound. Accordingly, a decline in the price of the British Pound 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 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 by the official sector (central banks, other governmental agencies and related

institutions that buy, sell and hold British Pounds as part of their reserve assets) could adversely affect an investment in the Shares.

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

8. Commitments and Contingencies

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

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-Looking Information and Risk Factors

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are predictions and actual events or results may differ materially from those expressed in our forward-looking statements. Risks and uncertainties may cause our actual results to differ materially from those expressed in our forward-looking statements.

The value of the Shares relates directly to the value of the British Pound Sterling held by the Trust and fluctuations in the price of the British Pound Sterling could materially adversely affect an investment in the Shares. Readers are urged to review the "Risk Factors" section contained in the Prospectus for a description of other risks and uncertainties that may affect an investment in the Shares.

The discussion and analysis which follows may contain statements that relate to future events or future performance. In some cases, such forward-looking statements can be identified by terminology such as anticipate, expect, intend, plan, believe, seek, outlook and estimate, as similar words and phrases that signify forward-looking statements. 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. Further, these 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

CurrencySharesSM British Pound Sterling Trust (the Trust) is a grantor trust that was formed on June 8, 2006. The Trust issues shares (the Shares) in blocks of 50,000 each (a Basket) in exchange for deposits of British Pound Sterling and distributes British Pound Sterling in connection with the redemption of Baskets.

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

The Shares, which began trading on June 26, 2006, trade under ticker symbol "FXB" on NYSE Arca. Investing in the Shares does not insulate the investor from certain risks, including price volatility.

Definition and Calculation of Net Asset Value

The net asset value (NAV) of the Trust is the aggregate value, expressed in U.S. Dollars (USD), of the Trust's assets. To calculate the NAV, The Bank of New York (the Trustee) adds to the amount of British Pound Sterling in the Trust at the end of the preceding business day accrued but unpaid interest, British Pound Sterling receivable under pending purchase orders and the value of other Trust assets, and subtracts the accrued

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but unpaid Sponsor's fee, British Pound Sterling payable under pending redemption orders and other Trust expenses and liabilities, if any.

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The NAV is expressed in USD based on the Noon Buying Rate as determined by the Federal Reserve Bank of New York. If, on a particular evaluation day, the Noon Buying Rate has not been determined and announced by 2:00 PM (New York time), then the most recent Federal Reserve Bank of New York determination of the Noon Buying Rate shall 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 such valuation. The Trustee also determines the NAV per Share, which equals the NAV of the Trust divided by the number of outstanding Shares.

The Sponsor publishes the NAV and NAV per Share on each day that NYSE Arca is open for regular trading on the Trust's website, www.currencyshares.com.

The following chart illustrates the movement in the price of the Shares based on NAV per Share and the bid and ask midpoint offered on the NYSE (prior to October 30, 2007) and NYSE Arca (on or after October 30, 2007) as of the Noon Buying Rate versus the corresponding British Pound Sterling (expressed as a multiple of 100 British Pound Sterling \div Noon Buying Rate \times 100):

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Liquidity

The Sponsor is not aware of any trends, demands, conditions or events that are reasonably likely to result in material changes to the Trust's liquidity needs. The Trust's Depository, JPMorgan Chase, London Branch, maintains two deposit accounts for the Trust, a primary deposit account that earns interest and a secondary deposit account that does not earn interest. Interest on the primary deposit account accrues daily and is paid monthly. The interest rate paid as of July 31, 2008 was an annual nominal rate of 4.59%. The following chart provides the daily rate paid by the Depository since the Shares began trading:

In exchange for a fee, the Sponsor bears most of the expense incurred by the Trust. As a result, the only ordinary expense of the Trust during the period covered by this report was the Sponsor's fee. Each month the Depository deposits into the secondary deposit account accrued but unpaid interest and the Trustee withdraws British Pound Sterling from the secondary deposit account to pay the accrued Sponsor's fee for the previous month plus other Trust expenses, if any. When the interest deposited exceeds the sum of the Sponsor's fee for the prior month plus other Trust expenses, if any, the Trustee converts the excess into USD at a prevailing market rate and distributes the USD as promptly as practicable to Shareholders on a pro rata basis (in accordance with the number of Shares that they own). Distributions paid during the current reporting period follow (annualized yield reflects the estimated annual yield an investor would receive if a monthly distribution stayed the same for the entire year going forward, and is calculated by annualizing the monthly distribution and dividing by the Trust NAV for the dates listed below):

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FXB Distribution History - Current Period

| Date | Value | NAV | Yield | Annualized Yield |
|----------|-----------|----------|-------|------------------|
| 7/1/2008 | \$0.69744 | \$199.32 | 0.35% | 4.13% |
| 6/2/2008 | \$0.71718 | \$196.71 | 0.36% | 4.45% |
| 5/1/2008 | \$0.70329 | \$197.51 | 0.36% | 4.20% |

Critical Accounting Estimates

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

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

The Trustee calculates the Trust's NAV each business day. For NAV calculation purposes, British Pound Sterling Deposits (cash) are translated at the Noon Buying Rate as determined and published by the Federal Reserve Bank of New York as of 12:00 PM (New York 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 Financial Accounting Standard 52, Foreign Currency Translation.

Results of Operations

The Trust was formed on June 8, 2006, and the Shares commenced trading on the NYSE on June 26, 2006. The primary listing of the Shares was transferred to NYSE Arca on October 30, 2007. As of October 31, 2006, the number of British Pound Sterling owned by the Trust was 30,000,000 resulting in a redeemable capital share value of \$57,449,178. As of October 31, 2007, the number of British Pound Sterling owned by the Trust was 85,000,000 resulting in a redeemable capital share value of \$177,355,183.

During the nine months ended July 31, 2008, an additional 1,700,000 shares had been created in exchange for 170,000,000 British Pound Sterling and 2,000,000 shares were redeemed in exchange for 200,000,000 British Pound Sterling. As of July 31, 2008, the number of British Pound Sterling owned by the Trust was 55,000,000 resulting in a redeemable capital share value of \$109,325,375.

Movements in the Price of British Pound Sterling

The investment objective of the Trust is for the Shares to reflect the price of the British Pound Sterling plus accrued interest, less the expenses of the Trust's operations. The Shares are intended to provide institutional and retail investors with a simple, cost-effective means of gaining investment benefits similar to those of holding British Pound Sterling. Each outstanding Share represents a proportional interest in the British Pound Sterling held by the Trust. The following chart provides recent trends on the price of British Pound Sterling. The chart illustrates movements in the price of British Pound Sterling in USD and is based on the Noon Buying Rate as determined by the Federal Reserve Bank of New York:

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Historical values of the Noon Buying Rate can be obtained at <http://www.ny.frb.org/markets/fxrates/noon.cfm>.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4T. CONTROLS AND PROCEDURES

The Trust maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) designed to ensure that material information relating to the Trust is recorded, processed and disclosed on a timely basis. The Trust's disclosure controls and procedures are designed by or under the supervision of the Sponsor's chief executive officer and chief financial officer who exercise oversight over the Trust as the Trust has no officers. The chief executive officer and chief financial officer of the Sponsor have evaluated the effectiveness of the Trust's disclosure controls and procedures as of July 31, 2008. Based on that evaluation, the chief executive officer and chief financial officer of the Sponsor have concluded that the disclosure controls and procedures of the Trust were effective as of the end of the period covered by this report. There were no changes in the Trust's internal control over financial reporting that occurred during the Trust's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

PART II OTHER INFORMATION**Item 1. Legal Proceedings**

None.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the Risk Factors section of the Trust's Annual Report on Form 10-K filed with the Securities and Exchange Commission on January 29, 2008.

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

(a) None.

(b) Not applicable.

(c) During the quarter ended July 31, 2008, nine Baskets (450,000 Shares registered pursuant to Section 12 of the Securities Exchange Act of 1934) were redeemed by the Trust, as follows:

| <u>Period</u> | <u>Total Number of Registered Shares Redeemed</u> | <u>Average Price Per Share</u> |
|-------------------------|-------------------------------------------------------|--------------------------------|
| 05/01/2008 - 05/31/2008 | 150,000 | \$196.71 |
| 06/01/2007 - 06/30/2008 | 100,000 | \$194.94 |
| 07/01/2008 - 07/31/2008 | 200,000 | \$198.94 |

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

| <u>Number</u> | <u>Description of Exhibit</u> |
|---------------|-----------------------------------------------------------------------------------------------------------|
| 31.1 | Certification of Principal Executive Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Principal Financial Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

SIGNATURES

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

CURRENCYSHARESSM
BRITISH POUND STERLING TRUST

By: Rydex Specialized Products LLC
Sponsor of the CurrencySharesSM
British Pound Sterling Trust

Date: September 15, 2008

By: /s/ Nick Bonos
Nick Bonos
Chief Financial Officer
(principal financial officer)