



**To:** Head of NASDAQ Trading  
Head of ETF Trading  
Structured Products Traders  
Compliance Officers

**From:** William Slattery  
**Director**  
**PHLX Listing Qualifications Department**

**Re: Ten PowerShares Exchange-Traded Fund Trust Funds to Begin Trading on NASDAQ on September 20, 2006 (Financial Products Update #2006-xxx)**

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## Summary

- Ten PowerShares Exchange-Traded Fund Trust Funds (Funds) to Begin Trading on PHLX on September 20, 2006
- The Funds seek investment results that correspond generally to the price and yield (before the Funds' fees and expenses) of the respective underlying FTSE Research Affiliates Fundamentals (RAFI) Indices (Underlying Indices)
- Creation Units
- Continuous Offering
- Risk Factors
- Trading Halts
- Dissemination of Fund Data
- Contact information

## Overview

The following PowerShares Exchange-Traded Fund Trust Funds which are Exchange Traded Funds (ETFs), have been approved for listing on the NASDAQ Global Market<sup>®</sup> (NGM). The Funds will commence trading on Wednesday, September 20, 2006, under the following trading symbols and CUSIP numbers<sup>1</sup>:

Fund Name	Symbol	CUSIP
PowerShares FTSE RAFI US 1500 Small-Mid Portfolio	PRFZ	73935X 56 7
PowerShares FTSE RAFI Energy Sector Portfolio	PRFE	73935X 55 9
PowerShares FTSE RAFI Basic Materials Sector Portfolio	PRFM	73935X 54 2
PowerShares FTSE RAFI Industrials Sector Portfolio	PRFN	73935X 53 4
PowerShares FTSE RAFI Consumer Goods Sector Portfolio	PRFG	73935X 52 6
PowerShares FTSE RAFI Healthcare Sector Portfolio	PRFH	73935X 51 8
PowerShares FTSE RAFI Consumer Services Sector Portfolio	PRFS	73935X 49 2
PowerShares FTSE RAFI Telecommunications & Technology Sector Portfolio	PRFQ	73935X 48 4

<sup>1</sup> The CUSIP Number on this notice is not provided by the American Banking Association and has been independently gathered.

PowerShares FTSE RAFI Utilities Sector Portfolio	PRFU	73935X 47 6
PowerShares FTSE RAFI Sector Financials Portfolio	PRFF	73935X 23 7

The Funds seeks to provide investment results that correspond generally to the price and yield (before the Fund's fees and expenses) of the following FTSE RAFI Indices:

<b>Fund Name</b>	<b>FTSE Index</b>
PowerShares FTSE RAFI US 1500 Small-Mid Portfolio	FTSE RAFI US 1500 Small-Mid Index
PowerShares FTSE RAFI Energy Sector Portfolio	FTSE RAFI Energy Sector Index
PowerShares FTSE RAFI Basic Materials Sector Portfolio	FTSE RAFI Basic Materials Sector Index
PowerShares FTSE RAFI Industrials Sector Portfolio	FTSE RAFI Industrials Sector Index
PowerShares FTSE RAFI Consumer Goods Sector Portfolio	FTSE RAFI Consumer Goods Sector Index
PowerShares FTSE RAFI Healthcare Sector Portfolio	FTSE RAFI Healthcare Sector Index
PowerShares FTSE RAFI Consumer Services Sector Portfolio	FTSE RAFI Consumer Services Sector Index
PowerShares FTSE RAFI Telecommunications & Technology Sector Portfolio	FTSE RAFI Telecommunications & Technology Sector Index
PowerShares FTSE RAFI Utilities Sector Portfolio	FTSE RAFI Utilities Sector Index
PowerShares FTSE RAFI Sector Financials Portfolio	FTSE RAFI Sector Financials Index

For further information on the PowerShares Exchange-Traded Fund Trust Funds, please refer to the prospectus (SEC file No. 811-21265).

## Description

The Funds are managed PowerShares Capital Management LLC (PowerShares). PowerShares serves as advisor or subadvisor for 47 exchange-traded funds. As of September 18, 2006, PowerShares became a wholly-owned subsidiary of AMVESCAP PLC. AIM Distributors, Inc. (AIM) is the principal underwriter and distributor of the Funds' shares.

The Funds seek to provide investment results that correspond generally to the price and yield (before the Fund's fees and expenses) of the Underlying Indices. The FTSE RAFI indices are fundamentally weighted indices based on the following four fundamental measures of firm size: book value, cash flow, sales and dividends. Each Fund will normally invest at least 90% of its total assets in common stocks that comprise each FTSE RAFI Index but it may also employ sampling techniques or other techniques discussed in more detail in the Fund's prospectus to meet its objectives.

Like any index fund, the Funds earn dividends, interest, and other income from its investments and distributes this income (less expenses or losses) to shareholders as dividends. The Fund also realizes capital gains from its investments, and distributes these gains (less any losses) to shareholders as capital gain distributions. The Funds normally pay dividends, if any, on a quarterly basis. Capital gain distributions are paid annually.

The Depository Trust Company (DTC), or its nominee, is the registered owner of all outstanding shares of the Funds.

## Creation Units

The Funds issue and redeem shares in each Fund only in Creation Unit Aggregations on a continuous basis through the distributor, AIM, without a sales load, at its net asset value (NAV), as more fully disclosed in the prospectus. Each creation unit consists of a block of 100,000 shares. To be eligible to place orders with AIM to purchase a creation unit of the Funds, an entity must be an "Participating Party" which is either (i) a broker-dealer or other participant in the clearing process through the Continuous Net Settlement System of the National Securities Clearing Corporation, a clearing agency that is registered with the SEC; or (ii) a DTC participant, and, in each case, must have executed an agreement with AIM, with respect to creations and redemptions of creation units.

## **Continuous Offering**

The method by which creation units of shares are created and traded may raise certain issues under applicable securities laws. Because new creation units of shares are issued and sold by the Funds on an ongoing basis, at any point a "distribution," as such term is used in the 1933 Act, may occur. Broker-dealers and other persons are cautioned that some activities on their part may, depending on the circumstances, result in their being deemed participants in a distribution in a manner which could render them statutory underwriters and subject them to the prospectus delivery and liability provisions of the 1933 Act.

For example, a broker-dealer firm or its client may be deemed a statutory underwriter if it takes creation units after placing an order with AIM, the Funds' distributor, breaks them down into constituent shares, and sells such shares directly to customers, or if it chooses to couple the creation of a supply of new shares with an active selling effort involving solicitation of secondary market demand for shares. A determination of whether one is an underwriter for purposes of the 1933 Act must take into account all the facts and circumstances pertaining to the activities of the broker-dealer or its client in the particular case, and the examples mentioned above should not be considered a complete description of all the activities that could lead to a categorization as an underwriter.

Broker-dealer firms should also note that dealers who are not "underwriters," but are effecting transactions in shares of the Funds, whether or not participating in the distribution of shares, are generally required to deliver a prospectus. This is because the prospectus delivery exemption in Section 4(3) of the Securities Act of 1933, as amended, is not available in respect of such transactions as a result of Section 24(d) of the Investment Company Act of 1940, as amended. The Funds, however, has received from the Securities and Exchange Commission an exemption from the prospectus delivery obligation in ordinary secondary market transactions under certain circumstances, on the condition that purchasers are provided with a product description of the Funds. As a result, broker-dealer firms should note that dealers who are not underwriters but are participating in a distribution (as contrasted with ordinary secondary market transactions) and thus dealing with the Funds' shares that are part of an over-allotment within the meaning of Section 4(3)(a) of the Securities Act would be unable to take advantage of the prospectus delivery exemption provided by Section 4(3) of the Securities Act. A prospectus-delivery obligation under Section 5(b)(2) of the Securities Act owed to a broker or dealer in connection with a sale of the shares of the Funds on NASDAQ may be satisfied through the prospectus delivery mechanism of Securities Act Rule 153 if all of the conditions contained in that Rule are met.

## **Other Information and Risk Factors**

## Principal Risks of Investing in the Funds

Risk is inherent in all investing. The Funds' shares will change in value, and you could lose money by investing in the Funds. The Funds may not achieve its objective. Investments in the Funds are not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. An investment in the Funds involves risks similar to those of investing in any fund of equity securities traded on exchanges. The following specific risk factors have been identified as the principal risks of investing in the Funds.

**Market Risk.** One of the principal risks of investing in the Funds is market risk. Market risk is the risk that a particular stock owned by the Funds, Fund Shares or stocks in general may fall in value. Shares are subject to market fluctuations caused by such factors as economic, political, regulatory or market developments, changes in interest rates and perceived trends in stock prices. Overall stock values could decline generally or could underperform other investments.

**Index Tracking Risk.** You should anticipate that the value of the Shares will decline, more or less, in correlation with any decline in the value of the Underlying Indices.

**Non-Correlation Risk.** The Funds' return may not match the return of the Underlying Indices for a number of reasons. For example, the Funds incur operating expenses not applicable to the underlying indices, and incur costs in buying and selling securities, especially when rebalancing the Funds' securities holdings to reflect changes in the composition of the Underlying Indices. In addition, the Funds' portfolio holdings may not exactly replicate the securities included in the Underlying Indices or the ratios between the securities included in the Underlying Indices.

The Funds may not be fully invested at times, either as a result of cash flows into the Funds or reserves of cash held by the Funds to meet redemptions and expenses. If the Funds utilize a sampling approach or invest in futures or other derivative positions, their return may not correlate as well with the return on the Underlying Indices, as would be the case if it purchased all of the stocks in the Underlying Indices with the same weightings as the Technology Index. While the Funds seek to have a correlation of 0.95 or better, before expenses, between the Funds' performance and the performance of the Underlying Indices, there can be no assurance that the Funds will be able to achieve such a correlation. Accordingly, the Funds' performance may correlate to a lesser extent and may possibly vary substantially from the performance of the Underlying Indices.

**Replication Management Risk.** The Fund is also exposed to additional market risk due to its policy of investing principally in the securities included in the Underlying Indices. As a result of this policy, securities held by the Funds will generally not be bought or sold in response to market fluctuations and the securities may be issued by companies concentrated in a particular industry. As a result of this policy, the Funds would generally not sell a stock because the stock's issuer was in financial trouble, unless that stock is removed or is anticipated to be removed from the Underlying Indices.

**Non-Diversification Risk.** Because the Funds are non-diversified, the Funds are exposed to additional market risk. A non-diversified fund may invest a relatively high percentage of its assets in a limited number of issuers. Non-diversified funds are more susceptible to any single political, regulatory or economic occurrence and to the financial condition of individual issuers in which it invests.

Small Cap and Mid Cap Company Risk. The Funds may invest in small capitalization and mid-capitalization companies. Such companies may be more vulnerable to adverse general market or economic developments, and their securities may be less liquid and may experience greater price volatility than larger, more established companies as a result of several factors, including limited trading volumes, products or financial resources, management inexperience and less publicly available information. Accordingly, such companies are generally subject to greater market risk than larger, more established companies.

Concentration Risk. The Funds may be concentrated in the securities of a given industry. A concentration makes the Funds more susceptible to any single occurrence affecting the industry or sector and may subject the Funds to greater market risk than more diversified funds. Due to the Funds' policy of primarily investing in the securities of the Underlying Indices, the Fund may or may not be concentrated in the securities of a given industry from time to time.

Members should be mindful of their obligations under NASD Rule 2310 (a) and (b) and the NASD Notice to Members 03-71. The NASD Notice reminds members of their obligations to: (1) conduct adequate due diligence to understand the features of the product; (2) perform a reasonable-basis suitability analysis; (3) perform customer-specific suitability analysis in connection with any recommended transactions; (4) provide a balanced disclosure of both the risks and rewards associated with the particular product, especially when selling to retail investors; (5) implement appropriate internal controls; and (6) train registered persons regarding the features, risk and suitability of these products.

### **Exchange Rules Applicable to Trading in the Shares**

Trading of the Shares on PHLX's PSX system is on a UTP basis and is subject to PHLX rules.

### **Trading Hours**

The values of each index underlying the Shares are disseminated to data vendors every 15 seconds. The Shares will trade on PSX between 9:00 a.m. and 5:00 p.m. ET. For trading during PSX's Pre-Market and Post-Market Sessions, market participants should note that additional risks may exist with respect to trading the Funds during these sessions, when the underlying index's values, intraday indicative value, or similar value may not be disseminated or calculated.

### **Trading Halts**

When evaluating the necessity of imposing a trading halt in an ETF, PHLX may consider, among other factors:

- The extent to which trading has ceased in the underlying security(s);
- Whether trading has been halted or suspended in the primary market(s) for any combination of underlying securities accounting for 20% or more of the applicable current index group value. The value being established to be the value at the close of the prior trading day;
- The presence of other unusual conditions or circumstances deemed to be detrimental to the maintenance of a fair and orderly market.

The trading of an ETF, that has been the subject of a trading halt or suspension, may resume when PHLX determines that the conditions which led to the halt or

suspension are no longer present or that the interests of a fair and orderly market are served by a resumption of trading.

## Dissemination of Fund Data

Beginning Wednesday, September 20, 2006, NASDAQ will calculate the Intraday Portfolio Value (IPV) for the Funds and disseminate this value through the NASDAQ Index Dissemination Service<sup>SM</sup> (NIDS<sup>SM</sup>) under the following symbols:

Fund Name	Symbol
PowerShares FTSE RAFI US 1500 Small-Mid Portfolio	PRFZI
PowerShares FTSE RAFI Energy Sector Portfolio	PRFEI
PowerShares FTSE RAFI Basic Materials Sector Portfolio	PRFMI
PowerShares FTSE RAFI Industrials Sector Portfolio	PRFNI
PowerShares FTSE RAFI Consumer Goods Sector Portfolio	PRFGI
PowerShares FTSE RAFI Healthcare Sector Portfolio	PRFHI
PowerShares FTSE RAFI Consumer Services Sector Portfolio	PRFSI
PowerShares FTSE RAFI Telecommunications & Technology Sector Portfolio	PRFOI
PowerShares FTSE RAFI Utilities Sector Portfolio	PRFUI
PowerShares FTSE RAFI Sector Financials Portfolio	PRFFI

Expressed as a dollar amount per share, the IPV will be disseminated every 15 seconds from 9:30:15 a.m. to 5:16:00 p.m., ET. Between 4:01:20 p.m. and 5:15:00 p.m., ET, NASDAQ will recalculate the closing IPV to reflect any cancellations and corrections that may have occurred in component securities.

NASDAQ will also begin disseminating daily valuation information for the Funds on September 20, 2006. These daily valuations will be posted on the NASDAQ Trader<sup>®</sup> website as well as disseminated through NIDS. Please refer to the [Index and ETF Symbol List](#) for the full list of the Funds' valuation symbols.

In addition, NASDAQ will post the Funds daily valuations under the Trading Data section of NASDAQtrader.com.

## Suitability

Members and member organizations recommending transactions in the Shares to customers should make a determination that the recommendation is suitable for the customer, as provided by PHLX Rule 763.

PHLX members and member organizations also should review NASD Notice to Members 03-71 for guidance on trading these products. The Notice reminds broker-dealers of their obligations to: (1) conduct adequate due diligence to understand the features of the product; (2) perform a reasonable-basis suitability analysis; (3) perform customer-specific suitability analysis in connection with any recommended transactions; (4) provide a balanced disclosure of both the risks and rewards associated with the particular product, especially when selling to retail investors; (5) implement appropriate internal controls; and (6) train registered persons regarding the features, risk and suitability of these products.

## Delivery of a Prospectus

PHLX members and member organizations should be mindful of applicable prospectus delivery requirements under the federal securities laws with respect to transactions in the Funds.

Prospectuses may be obtained through the Funds' website. The prospectus for the Funds does not contain all of the information set forth in the Funds' registration statement (including the exhibits to the registration statement), parts of which have been omitted in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). For further information about the Funds, please refer to the registration statement.

In the event that the Funds rely upon an order by the SEC exempting the Shares from certain prospectus delivery requirements under Section 24(d) of the 1940 Act and in the future make available a written product description, PHLX Rule 803(o) requires that PHLX members and member organizations provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Trust for the Funds, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, PHLX members and member organizations shall include such a written description with any sales material relating to the Shares that is provided to customers or the public. Any other written materials provided by a PHLX member or member organization to customers or the public making specific reference to the Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of the Shares of the Fund has been prepared by the Trust and is available from your broker. It is recommended that you obtain and review such circular before purchasing Shares of the Fund. In addition, upon request you may obtain from your broker a prospectus for Shares of the Fund."

A PHLX member or member organization carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase Shares for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to PHLX members and member organizations under this rule.

Upon request of a customer, PHLX members and member organizations also shall provide a copy of the prospectus.

## Contact Information

For more complete information on the Fund visit [www.powershares.com](http://www.powershares.com), or call PowerShares Capital Management LLC at 800.983.0903.

Any additional questions can be directed to:

- [Will Slattery](#), Director, PHLX Listing Qualifications, at 301.978.8088.
- [Kate Mitchel](#), Director, PHLX Financial Products, at 301.978.8416.

ETFs are subject to market fluctuations of their underlying investments. Diversification does not ensure a profit or guarantee against loss in a declining market.

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Portfolios of the PowerShares Exchange-Traded Fund Trust as listed on the Exchange are subject to various investment risks. As index funds, each portfolio or fund is subject to the risk that it will not correlate perfectly with its underlying index and, therefore, its performance will deviate from the performance of the underlying index.

Important information about the PowerShares funds are contained in its current prospectus. For more complete information regarding the PowerShares fund product, please go [www.powershares.com](http://www.powershares.com), or call 1-800-983.0903. Historical performance is not indicative of the future performance and the value of investments may fall as well as rise and investors may lose money.

AIM Distributors, Inc. is the distributor for the PowerShares Exchange-Traded Fund Trust

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