



## Information Circular: Powershares ETF Trust II

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**To:** Head Traders, Technical Contacts, Compliance Officers, Heads of ETF Trading, Structured Products Traders

**From:** PHLX Listing Qualifications Department

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<b>Exchange-Traded Fund</b>	<b>Symbol</b>	<b>CUSIP #</b>
PowerShares Insured National Municipal Bond Portfolio	PZA	73936T474
PowerShares Insured California Municipal Bond Portfolio	PWZ	73936T441
PowerShares Insured New York Municipal Bond Portfolio	PZT	73936T458
PowerShares Emerging Markets Sovereign Debt Portfolio	PCY	73936T573
PowerShares 1-30 Laddered Treasury Portfolio	PLW	73936T524

### Background Information on the Funds

The PowerShares Exchange-Traded Fund Trust II (the "Trust") is a management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Trust consists of several exchange-traded funds (each, a "Fund" and collectively, the "Funds"). This circular refers only to the five Funds listed above. The shares of the Funds are referred to herein as "Shares." PowerShares Capital Management LLC (the "Adviser") serves as the investment adviser for the Funds.

PZA seeks results that correspond generally to the price and yield performance (before fees and expenses) of an index called the Merrill Lynch Insured National Long-Term Core Municipal Securities Index (the "ML Index"). The ML Index is designed to track the performance of U.S. dollar-denominated investment grade insured tax-exempt debt issued by U.S. States, or their political subdivisions, in the U.S. domestic market. Qualifying securities must have an unconditional contractual guaranty by an insurance company for any unpaid interest and principal, at least 20 years remaining on their term to final maturity, a fixed coupon, a rating of AAA (based on an average of Moody's Investors Service, Inc., Standard & Poor's Ratings Group, and Fitch Ratings, Inc.), and a minimum principal amount outstanding of \$25 million per maturity (\$50 million prior to January 2005). In addition, qualifying securities must be within three years of their original issue date and at least five years from their first call date. Original issue zero coupon bonds, 144A securities, taxable municipal securities, securities subject to alternative minimum tax, pre-refunded bonds, single and multi-family housing and tobacco bonds are excluded from the ML Index.

PWZ seeks investment results that correspond generally to the price and yield performance (before fees and expenses) of an index called the Merrill Lynch California Insured Long-Term Core Municipal Securities Index (the "CA Index"). The

CA Index is designed to track the performance of U.S. dollar-denominated investment grade tax-exempt debt publicly issued by California or Puerto Rico, or their political subdivisions, in the U.S. domestic market. Qualifying securities must have an unconditional contractual guaranty by an insurance company for any unpaid interest and principal, at least fifteen years remaining term to final maturity, a fixed coupon, a rating of AAA (based on an average of Moody's Investors Service, Inc., Standard & Poor's Rating Group, and Fitch Ratings, Inc.), and a minimum amount outstanding of \$25 million per maturity. In addition, qualifying securities must be within five years of their original issue date and at least five years from their first call date. Original issue zero coupon bonds, 144A securities, taxable municipal securities, securities subject to alternative minimum tax, pre-refunded bonds, single and multi-family housing bonds and tobacco bonds are excluded from the CA Index.

PZT seeks investment results that correspond generally to the price and yield performance (before fees and expenses) of an index called the Merrill Lynch New York Insured Long-Term Core Municipal Securities Index (the "NY Index"). The NY Index is designed to track the performance of U.S. dollar-denominated investment grade tax-exempt debt publicly issued by New York or Puerto Rico, or their political subdivisions, included in the U.S. domestic market. Qualifying securities must have an unconditional contractual guaranty by an insurance company for any unpaid interest and principal, at least fifteen years remaining term to final maturity, a fixed coupon, a rating of AAA (based on an average of Moody's Investors Service, Inc., Standard & Poor's Rating Group, and Fitch Ratings, Inc.), and a minimum principal amount outstanding of \$25 million per maturity (\$50 million prior to January 2005). In addition, qualifying securities must be within five years of their original issue date and at least five years from their first call date. Original issue zero coupon bonds, 144A securities, taxable municipal securities, securities subject to alternative minimum tax, pre-refunded bonds, single and multi-family housing bonds and tobacco bonds are excluded from the NY Index.

PCY seeks results that correspond generally to the price and yield performance (before fees and expenses) of an index called the DB Emerging Market USD Liquid Balanced Index (the "Balanced Index"). PCY will normally invest at least 90% of its total assets in the securities that comprise the Balanced Index. The Adviser will seek to match the performance of the Balanced Index. The Balanced Index is a benchmark index that measures potential returns of a theoretical portfolio of liquid emerging markets U.S. dollar-denominated government bonds. Deutsche Bank Securities Inc. ("DB") selects zero to three securities from each of the 17 emerging market countries set forth below that a) is denominated in U.S. dollars, b) is a sovereign bond, c) has more than three years to maturity and d) has an outstanding float of at least \$500 million. As of August 31, 2007, the Balanced Index included approximately 25 bonds issued by Mexico, Panama, Peru, Uruguay, Venezuela, Bulgaria, Russia, South Africa, Turkey, Ukraine, Brazil, Colombia, Indonesia, Korea, Philippines, Qatar, Argentina, El Salvador and Vietnam. The countries in the Balanced Index are selected on an annual basis and the membership list is rebalanced on a quarterly basis.

PLW seeks results that correspond generally to the price and yield performance (before fees and expenses) of an index called the Ryan/Mergent 1-30 Year Treasury Laddered Index (the "Laddered Index"). PLW will normally invest at least 90% of its total assets in the securities that comprise the Laddered Index. The Adviser will seek to match the performance of the Laddered Index. The Laddered Index is an index that measures potential returns of a theoretical portfolio of U.S. Treasury securities

with a yield curve based upon 30 distinct annual maturities. The Laddered Index seeks to maintain a continuous maturity laddered portfolio of approximately 30 securities, meaning that securities holdings are scheduled to mature in a proportional, annual sequential pattern. However, if securities with a desired maturity date are not available, a 6-month deviation is allowed. Only Treasury auctioned issues with fixed coupon rates that are non-callable are selected. No treasury inflation-protected securities, bills or zero-coupon securities are allowed. Securities included in the Laddered Index will be selected by Mergent, Inc., ALM Research Solutions, LLC and Ryan Holdings, LLC. As of August 31, 2007, the Laddered Index included approximately 26 securities.

Each Fund, using an "indexing" investment approach, attempts to replicate, before fees and expenses, the performance of an underlying index. The Adviser seeks correlation over time of 0.95% or better between a Fund's performance and the performance of its underlying index.

As described more fully in the Trust's prospectus and Statement of Additional Information ("SAI"), the Funds issue and redeem Shares at net asset value ("NAV") only in large blocks of 100,000 Shares for PZA, PWZ, and PZT and 200,000 Shares for PCY and PLW (each block of Shares called a "Creation Unit") or multiples thereof. As a practical matter, only broker-dealers or large institutional investors with creation and redemption agreements and called Authorized Participants can purchase or redeem these Creation Units. Except when aggregated in Creation Units, the Shares may not be redeemed with the Funds.

Ordinarily, dividends from net investment income, if any, are declared and paid monthly. Each Fund distributes its net realized capital gains, if any, to shareholders annually.

Shares are held in book-entry form, which means that no Share certificates are issued. The Depository Trust Company or its nominee is the record owner of all outstanding Shares of the Funds and is recognized as the owner of all Shares for all purposes.

Each Fund's NAV is determined as of the close of trading (normally 4:00 p.m., Eastern Time or "ET") on each day the New York Stock Exchange is open for business. NAV is calculated by taking the market price of each Fund's total assets, including interest or dividends accrued but not yet collected, less all liabilities, and dividing such amount by the total number of Shares outstanding. The result, which is rounded to the nearest cent, is the NAV per Share.

The registration statement for the Funds describes the various fees and expenses for the Funds' Shares. For a more complete description of the Funds and the underlying indexes, visit the Funds' website at [www.powershares.com](http://www.powershares.com).

### **Purchases and Redemptions in Creation Unit Size**

PHLX members and member organizations are hereby informed that procedures for purchases and redemptions of Shares in Creation Unit Size are described in the Trust's prospectus and SAI, and that Shares are not individually redeemable but are redeemable only in Creation Unit Size aggregations or multiples thereof.

## **Principal Risks**

Interested persons are referred to the discussion in the prospectus for the Funds of the principal risks of an investment in the Funds. These include tracking error risk (factors causing a Fund's performance to not match the performance of its underlying index), market trading risk (for example, trading halts, trading above or below net asset value), stock market risk, investment style risk, sector risk, investment approach risk, non-diversification risk, issuer-specific risk, management risk, global bonds risk, lack of market liquidity, derivatives risk, call risk, credit risk, interest rate risk, municipal securities risk and tax risk.

## **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.

## **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 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.

## **Trading Halts**

PHLX will halt trading in the Shares of a Fund in accordance with PHLX Rule 3100. The grounds for a halt under these rules include a halt by the primary market because the intraday indicative value of the Fund, the value of its underlying index, or a similar value are not being disseminated as required, or a halt for other regulatory reasons. In addition, PHLX will also stop trading the Shares of a Fund if the primary market de-lists the Fund.

## **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.

## **Exemptive, Interpretive and No-Action Relief Under Federal Securities Regulations**

The SEC has issued exemptive, interpretive or no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 (the "Act") regarding trading in the above mentioned exchange-traded Funds.

## **Regulation M Exemptions**

Generally, Rules 101 and 102 of Regulation M prohibit any "distribution participant" and its "affiliated purchasers" from bidding for, purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of a distribution

until after the applicable restricted period, except as specifically permitted in Regulation M. The provisions of the Rules apply to underwriters, prospective underwriters, brokers, dealers, and other persons who have agreed to participate or are participating in a distribution of securities.

The SEC has granted an exemption from Rule 101 under Regulation M to permit persons participating in a distribution of shares of the above-mentioned Funds to engage in secondary market transactions in such shares during their participation in such a distribution. In addition, the SEC has granted relief under Regulation M to permit persons who may be deemed to be participating in the distribution of Shares of the above-mentioned Funds (i) to purchase securities for the purpose of purchasing Creation Unit Aggregations of Fund Shares and (ii) to tender securities for redemption in Creation Unit Aggregations. Further, the SEC has clarified that the tender of Fund Shares to the Funds for redemption does not constitute a bid for or purchase of any of the Funds' securities during the restricted period of Rule 101. The SEC has also granted an exemption pursuant to paragraph (e) of Rule 102 under Regulation M to allow the redemption of Fund Shares in Creation Unit Aggregations during the continuous offering of Shares.

### **Customer Confirmations for Creation or Redemption of Fund Shares (SEC Rule 10b-10)**

Broker-dealers who handle purchases or redemptions of Fund Shares in Creation Unit size for customers will be permitted to provide such customers with a statement of the number of Creation Unit Aggregations created or redeemed without providing a statement of the identity, number and price of shares of the individual securities tendered to a Fund for purposes of purchasing Creation Unit Aggregations ("Deposit Securities") or the identity, number and price of shares to be delivered by the Trust for the Fund to the redeeming holder ("Redemption Securities"). The composition of the securities required to be tendered to the Fund for creation purposes and of the securities to be delivered on redemption will be disseminated each business day and will be applicable to requests for creations or redemption, as the case may be, on that day. This exemptive relief under Rule 10b-10 with respect to creations and redemptions is subject to the following conditions:

- 1) Confirmations to customers engaging in creations or redemptions must state that all information required by Rule 10b-10 will be provided upon request;
- 2) Any such request by a customer for information required by Rule 10b-10 will be filed in a timely manner, in accordance with Rule 10b-10(c);
- 3) Except for the identity, number and price of shares of the component securities of the Deposit Securities and Redemption Securities, as described above, confirmations to customers must disclose all other information required by Rule 10b-10(a).

### **SEC Rule 14e-5**

An exemption from Rule 14e-5 has been granted to permit any person acting as a dealer-manager of a tender offer for a component security of a Fund (1) to redeem

Fund Shares in Creation Unit Aggregations from the issuer that may include a security subject to such tender offer and (2) to purchase Fund Shares during such tender offer. In addition, a no-action position has been taken under Rule 14e-5 if a broker-dealer acting as a dealer-manager of a tender offer for a security of a Fund purchases or arranges to purchase such securities in the secondary market for the purpose of tendering such securities to purchase one or more Creation Unit Aggregations of Shares, if made in conformance with the following:

- 1) such bids or purchases are effected in the ordinary course of business, in connection with a basket of 20 or more securities in which any security that is the subject of a distribution, or any reference security, does not comprise more than 5% of the value of the basket purchased; or
- 2) purchases are effected as adjustments to such basket in the ordinary course of business as a result of a change in the composition of the underlying index; and
- 3) such bids or purchases are not effected for the purpose of facilitating such tender offer.

### **Section 11(d)(1); SEC Rules 11d1-1 and 11d1-2**

Section 11(d)(1) of the Act generally prohibits a person who is both a broker and a dealer from effecting any transaction in which the broker-dealer extends credit to a customer on any security which was part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within thirty days prior to such transaction. The SEC has clarified that Section 11(d)(1) does not apply to broker-dealers that are not Authorized Participants (and, therefore, do not create Creation Unit Aggregations) that engage in both proprietary and customer transactions in Shares of the Fund in the secondary market, and for broker-dealer Authorized Participants that engage in creations of Creation Unit Aggregations. This relief is subject to specific conditions, including the condition that such broker-dealer (whether or not an Authorized Participant) does not, directly or indirectly, receive from the fund complex any payment, compensation or other economic incentive to promote or sell the Shares of a Fund to persons outside the fund complex, other than non-cash compensation permitted under NASD Rule 2830(l)(5)(A), (B) or (C). (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.) The SEC also has taken a no-action position under Section 11(d)(1) of the Act that broker-dealers may treat Shares of a Fund, for purposes of Rule 11d1-2, as "securities issued by a registered open-end investment company as defined in the Investment Company Act" and thereby extend credit or maintain or arrange for the extension or maintenance of credit on Shares that have been owned by the persons to whom credit is provided for more than 30 days, in reliance on the exemption contained in the rule.

### **SEC Rule 15c1-5 and 15c1-6**

The SEC has taken a no-action position with respect to Rule 15c1-5 and Rule 15c1-6 as to the required disclosure of control by a broker or dealer with respect to creations and redemptions of Fund Shares and secondary market transactions therein. (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.)

**This Information Circular is not a statutory prospectus. PHLX members and member organizations should consult the Fund's prospectus and/or the Fund's website for relevant information.**

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Inquiries regarding this Information Circular should be directed to:

- Will Slattery, PHLX Listing Qualifications at 301.978.8088
- PSX Market Sales, at 800.846.0477