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SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74866; File No. SR-NYSEArca-2015-15)

May 4, 2015

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Approving a Proposed Rule Change, as Modified by Amendment No. 1, to the List and Trade Shares of the Principal EDGE Active Income ETF under NYSE Arca Equities Rule 8.600

I. Introduction

On March 12, 2015, NYSE Arca, Inc. (the “Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (the “Commission”), pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act” or “Exchange Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> a proposed rule change to list and trade shares (“Shares”) of the Principal EDGE Active Income ETF (“Fund”) under NYSE Arca Equities Rule 8.600. The proposed rule change was published for comment in the Federal Register on March 27, 2015.<sup>4</sup> On April 14, 2015, the Exchange filed Amendment No. 1 to the proposal.<sup>5</sup> The Commission received no comments on the proposal. This order approves the proposed rule change, as modified by Amendment No.1.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> See Securities Exchange Act Release No. 74562 (March 23, 2015), 80 FR 16477 (“Notice”).

<sup>5</sup> In Amendment No. 1, the Exchange: (1) clarifies that the Fund’s investments in restricted securities (Rule 144A securities) will be limited to fixed income securities; and (2) specifies that the Fund will not invest in debt that is in default at the time of purchase. Amendment No. 1 is not subject to notice and comment because it is a technical amendment that does not materially alter the substance of the proposed rule change or raise any novel regulatory issues.

## II. The Exchange's Description of the Proposal<sup>6</sup>

NYSE Arca proposes to list and trade shares of the Fund under NYSE Arca Equities Rule 8.600, which governs the listing and trading of Managed Fund Shares.<sup>7</sup> The Fund is a series of the Principal Exchange-Traded Funds ("Trust"), a statutory trust organized under the laws of the State of Delaware and registered with the Commission as an open-end management investment company.<sup>8</sup> Principal Management Corporation will be the investment manager for the Fund ("Adviser"). Principal Global Investors, LLC and Edge Asset Management, LLC will each serve as a sub-adviser and portfolio manager (each referred to as a "Sub-Adviser" and collectively as the "Sub-Advisers").<sup>9</sup> The Adviser and Sub-Advisers are not registered as broker-dealers but are

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<sup>6</sup> Additional information regarding, among other things, the Shares, the Fund, its investment objective, its investments, its investment strategies, its investment methodology, its investment restrictions, its fees, its creation and redemption procedures, availability of information, trading rules and halts, and surveillance procedures can be found in the Notice and in the Registration Statement. See Notice, supra note 4, and Registration Statement, infra note 8, respectively.

<sup>7</sup> A Managed Fund Share is a security that represents an interest in an investment company registered under the Investment Company Act of 1940 (15 U.S.C. 80a-1) ("1940 Act") organized as an open-end investment company or similar entity that invests in a portfolio of securities selected by its investment adviser consistent with its investment objectives and policies.

<sup>8</sup> The Trust is registered under the 1940 Act. On February 6, 2015, the Trust filed with the Commission a registration statement on Form N-1A under the Securities Act of 1933 (15 U.S.C. 77a) ("Securities Act") and the 1940 Act relating to the Fund (File Nos. 333-201935 and 811-23029) (the "Registration Statement"). The description of the operation of the Trust and the Fund herein is based, in part, on the Registration Statement. In addition, the Commission has issued an order granting certain exemptive relief to the Adviser (as defined herein) under the 1940 Act. See Investment Company Act Release No. 30742 (File No. 812-14136) ("Exemptive Order"). The Fund will be offered in reliance upon the Exemptive Order issued to the Adviser.

<sup>9</sup> An investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 (the "Advisers Act"). As a result, the Adviser and Sub-Advisers and their related personnel are subject to the provisions of Rule 204A-1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures

affiliated with three broker-dealers and have implemented and will maintain a fire wall with respect to each such broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolios.<sup>10</sup>

A. Principal Investments of the Fund

The Fund will seek to provide current income, and will invest in a manner designed to provide shareholders with regular cash flow from their investment in the Fund. With regard to each investment category, the Fund will carry out its investment strategy by investing in the securities listed in each investment category below and/or through the purchase of shares issued by U.S. exchange-traded funds (“ETFs”)<sup>11</sup> or other investment companies, including shares in unit investment trusts and open-end investment companies, that invest a majority of their assets in the securities listed in the Principal Investment categories below. Under normal market

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designed to prevent the communication and misuse of non-public information by an investment adviser must be consistent with Rule 204A-1 under the Advisers Act. In addition, Rule 206(4)-7 under the Advisers Act makes it unlawful for an investment adviser to provide investment advice to clients unless such investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violation, by the investment adviser and its supervised persons, of the Advisers Act and the Commission rules adopted thereunder; (ii) implemented, at a minimum, an annual review regarding the adequacy of the policies and procedures established pursuant to subparagraph (i) above and the effectiveness of their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.

<sup>10</sup> See Notice, supra note 4, at 16478. In the event that (a) the Adviser or Sub-Advisers become registered broker-dealers or newly affiliated with one or more broker-dealers, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer, it will implement a fire wall with respect to its relevant personnel or its broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolios, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolios. See id.

<sup>11</sup> All ETF shares held by the Fund will be listed and traded in the U.S. on a national securities exchange. See id., n.8.

circumstances,<sup>12</sup> the Fund will invest a majority of its net assets in the following financial instruments listed in sections II.A.1 and 2, below:

1. Investment grade and non-investment grade U.S. and non-U.S. fixed income securities

Under normal market circumstances, at least 20% but no more than 90% of the Fund's net assets will be invested in investment grade and non-investment grade fixed income securities<sup>13</sup> which will consist of the following: U.S. Treasuries; agency securities; asset-backed securities; residential mortgage-backed securities; commercial mortgage-backed securities; zero-coupon securities; variable and floating rate instruments including inverse floaters; covered securities; sinking fund securities; equipment trust certificates; sovereign bonds; convertible bonds; pay-in-kind securities; step-coupon securities; stripped securities; inflation-indexed bonds; inflation protected debt securities; bank loans; municipal bonds; and corporate bonds issued by U.S., supranational and non-U.S. issuers (including issuers located in emerging markets) and denominated in U.S. dollars.<sup>14</sup>

2. Equity securities including U.S. and non-U.S. issues

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<sup>12</sup> The term “under normal market circumstances” includes, but is not limited to, the absence of extreme volatility or trading halts in the equity and fixed income markets or the financial markets generally; events or circumstances causing a disruption in market liquidity or orderly markets; operational issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance. See id., n.9.

<sup>13</sup> The Fund will limit its investments in non-investment grade fixed income securities to 75% or less of the Fund’s net assets. See id., n.10.

<sup>14</sup> Under normal market circumstances, the Fund will generally seek to invest in corporate bond issuances that have at least \$100,000,000 par amount outstanding in developed countries and at least \$200,000,000 par amount outstanding in emerging market countries. See Notice, supra note 4, 80 FR at 16479, n.24.

Under normal market circumstances, at least 20% but no more than 90% of the Fund's net assets will be invested in a diversified portfolio of equity securities issued by companies located in the U.S. and/or foreign countries, including emerging markets, which trade on a U.S. or foreign exchange. The Fund may carry out its investment in foreign securities by purchasing American Depositary Receipts (“ADRs”), European Depositary Receipts (“EDRs”) and Global Depositary Receipts (“GDRs”, together with EDRs and ADRs, “Depositary Receipts”).<sup>15</sup> The equity securities will be common stocks and preferred stocks as well as master limited partnerships and real estate investment trusts.

The Fund may engage in short sales.

B. Non-Principal Investments

While the Fund, under normal market circumstances, will invest a majority of its assets in the securities and financial instruments described above, the Fund may invest in other securities and financial instruments, as described below. With regard to each non-principal investment category, the Fund may carry out its investment strategy by investing in the securities listed in each investment category below and/or through the purchase of shares issued by ETFs or other investment companies that invest a majority of their assets in the securities listed in the investment categories below.

The Fund may invest in the following money market instruments: commercial paper issued by U.S. and foreign corporations; bank obligations; certificates of deposit; time deposits and bankers' acceptances of U.S. commercial banks and overseas branches of U.S. commercial banks and foreign banks; and short-term corporate debt, all of which have, at the time of purchase, 397 days or less remaining to maturity issued by U.S. and foreign issuers.

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<sup>15</sup> Not more than 10% of the net assets of the Fund will be invested in non-exchange-listed ADRs. See id. at 16483.

A portion of the Fund's assets may be invested in cross currency positions of the currencies of developed and emerging markets through spot foreign exchange currency contracts, forward foreign exchange currency contracts, and foreign exchange currency options that trade on U.S. exchanges.

The Fund may invest in the following derivative instruments: futures contracts (consisting of futures contracts based on equity or fixed income securities and/or equity or fixed income indices, commodities, interest rates and currencies); swap agreements on any of the following asset classes: equity, fixed income, currency and interest rates (such swaps may be based on the price return or total return of the referenced asset); credit default swaps (consisting of credit default swaps in which the referenced asset is a single fixed income security or a group of fixed income securities); options (consisting of long and short positions in call options and put options on indices based on equities, fixed income securities, interest rates, currencies or commodities, individual securities or currencies, swaptions and options on futures contracts); and forward contracts (consisting of forward contracts based on equity or fixed income securities and/or equity or fixed income indices, currencies, interest rates, swap forwards and non-deliverable forwards). Futures contracts and options on futures contracts in which the Fund may invest will be traded on U.S. exchanges regulated by the Commodity Futures Trading Commission ("CFTC"),<sup>16</sup> all of which will be members of the ISG or exchanges with which the Exchange has in place a CSSA. All other options contracts will be listed on a U.S. national securities exchange or a non-U.S. securities exchange that is a member of ISG or a party to a CSSA with the Exchange.

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<sup>16</sup> According to the Exchange, the Fund has claimed an exclusion from the definition of a "commodity pool operator" under the Commodity Exchange Act ("CEA") (7 U.S.C. 1) and is not subject to registration or regulation as a commodity pool operator under the CEA.

The Fund may use repurchase agreements, reverse repurchase agreements, and mortgage dollar rolls for temporary or emergency purposes or to earn additional income on portfolio securities, such as Treasury bills or notes.<sup>17</sup>

With respect to its investments in fixed income securities, the Fund may invest in restricted securities (Rule 144A securities), which are subject to legal restrictions on their sale.<sup>18</sup>

C. Investment Restrictions

The Exchange represents that the Fund will limit its investment in non-government sponsored residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities (including equipment trust certificates) as well as bank loans and illiquid restricted securities, in the aggregate, to 20% or less of the Fund's net assets.

The Exchange represents that the Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), including Rule 144A securities deemed illiquid by the Adviser, consistent with Commission guidance. The Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained, and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of the Fund's net assets are held in illiquid assets.

Not more than 10% of the net assets of the Fund in the aggregate invested in exchange-listed equity securities shall consist of equity securities whose principal market is not a member of the Intermarket Surveillance Group ("ISG") or a party to a comprehensive surveillance sharing agreement ("CSSA") with the Exchange.

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<sup>17</sup> The Fund will enter into reverse repurchase agreements only with parties that the Sub-Advisers deems creditworthy.

<sup>18</sup> See Amendment No. 1, supra note 5.

The Fund's investments will be consistent with its investment objective and will not be used to enhance leverage.

While the Fund may invest in inverse ETFs, the Fund will not invest in leveraged (e.g., 2X, -2X, 3X or -3X) ETFs.

### III. Discussion and Commission Findings

After careful review, the Commission finds that the Exchange's proposal to list and trade the Shares is consistent with the Exchange Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>19</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Exchange Act,<sup>20</sup> which requires, among other things, that the Exchange's rules be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Exchange Act,<sup>21</sup> which sets forth Congress' finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for and transactions in securities. Quotation and last-sale information for the Shares will be available via the Consolidated Tape Association ("CTA") high speed line. The Exchange represents that quotation and last-sale information for the portfolio holdings of the Fund that are U.S. exchange-listed will be available via the CTA

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<sup>19</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition and capital formation. See 15 U.S.C. 78c(f).

<sup>20</sup> 15 U.S.C. 78f(b)(5).

<sup>21</sup> 15 U.S.C. 78k-1(a)(1)(C)(iii).

high speed line. Quotation and last sale information for such U.S. exchange-listed securities, as well as futures, will also be available from the exchange on which they are listed. Quotation and last-sale information for exchange-listed options cleared via the Options Clearing Corporation will be available via the Options Price Reporting Authority. In addition, quotation information for OTC-traded securities, OTC-traded derivative instruments, investment company securities (excluding ETFs), Rule 144A securities, U.S. Treasuries, agency securities, asset-backed securities, residential mortgage-backed securities, commercial mortgage-backed securities, zero-coupon securities, variable and floating rate instruments including inverse floaters, covered securities, sinking fund securities, equipment trust certificates, sovereign bonds, convertible bonds, pay-in-kind securities, step-coupon securities, stripped securities, inflation-indexed bonds, inflation protected debt securities, bank loans, municipal bonds, corporate bonds, and money market instruments may be obtained from brokers and dealers who make markets in such securities or through nationally recognized pricing services through subscription agreements. The U.S. dollar value of foreign securities, instruments and currencies can be derived by using foreign currency exchange rate quotations obtained from nationally recognized pricing services.

The Commission also believes that the proposal to list and trade the Shares is reasonably designed to promote fair disclosure of information that may be necessary to price the Shares appropriately and to prevent trading when a reasonable degree of transparency cannot be assured. On each business day, before commencement of trading in Shares in the Core Trading Session on the Exchange, the Adviser will disclose on the Fund's website the Disclosed Portfolio for the Fund as defined in NYSE Arca Equities Rule 8.600(c)(2) that will form the basis for the Fund's calculation of NAV at the end of the business day.<sup>22</sup> The Exchange will obtain a representation

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<sup>22</sup> Under accounting procedures to be followed by the Fund, trades made on the prior

from the issuer of the Shares that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time.<sup>23</sup> In addition, the Portfolio Indicative Value (“PIV”), as defined in NYSE Arca Equities Rule 8.600(c)(3), will be widely disseminated by one or more major market data vendors at least every 15 seconds during the Core Trading Session.<sup>24</sup> The Fund will make available, prior to the opening of trading on the NYSE (currently 9:30 a.m. Eastern Time), through the National Securities Clearing Corporation the names and quantities of the instruments comprising the in-kind deposit of specified instruments, as well as the difference in market value of the aggregate market value of the in-kind deposit and the NAV attributable to a creation unit (if any), for that day. The NAV of the Shares will be calculated after 4:00 p.m. Eastern Time each trading day. The Fund’s website will include a form of the prospectus for the Fund that may be downloaded and additional information relating to NAV and other applicable information.

The Exchange represents that trading in the Shares will be halted if the circuit breaker parameters in NYSE Arca Equities Rule 7.12 have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable.<sup>25</sup> Trading in the Shares will be subject to NYSE Arca Equities Rule 8.600(d)(2)(D), which sets forth circumstances under which Shares may be halted.

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business day (“T”) will be booked and reflected in NAV on the current business day (“T+1”). Accordingly, the Fund will be able to disclose at the beginning of the business day the portfolio that will form the basis for the NAV calculation at the end of the business day.

<sup>23</sup> See NYSE Arca Equities Rule 8.600(d)(1)(B).

<sup>24</sup> Currently, it is the Exchange’s understanding that several major market data vendors display and/or make widely available PIVs taken from the CTA or other data feeds.

<sup>25</sup> These may include: (1) the extent to which trading is not occurring in the securities and/or the financial instruments comprising the Disclosed Portfolio of the Fund; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.

The Exchange states that it has a general policy prohibiting the distribution of material, non-public information by its employees. The Exchange represents that the Adviser and Sub-Advisers are not registered as broker-dealers but are affiliated with three broker-dealers and have implemented and will maintain a “fire wall” with respect to each such broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolios. Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit Holders in an Information Bulletin (“Bulletin”) of the special characteristics and risks associated with trading the Shares. The Exchange states that trading in the Shares will be subject to the existing trading surveillances, administered by the Financial Industry Regulatory Authority (“FINRA”) on behalf of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws.<sup>26</sup> On behalf of the Exchange, FINRA will communicate as needed regarding trading in the Shares, ETFs, other exchange-traded equity securities (including exchange-listed Depositary Receipts), options, futures, and options on futures with other markets and other entities that are members of the ISG, and FINRA, on behalf of the Exchange, may obtain trading information regarding trading in such financial instruments, as applicable, from such markets and other entities. In addition, the Exchange may obtain information regarding trading in such financial instruments, as applicable, from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.<sup>27</sup> FINRA, on behalf of the Exchange, is able to access, as needed, trade information

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<sup>26</sup> FINRA surveils trading on the Exchange pursuant to a regulatory services agreement. The Exchange is responsible for FINRA’s performance under this regulatory services agreement.

<sup>27</sup> For a list of the current members of ISG, see [www.isgportal.org](http://www.isgportal.org). The Exchange notes that not all components of the Disclosed Portfolio for the Fund may trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

for certain fixed income securities held by the Fund reported to FINRA's Trade Reporting and Compliance Engine.

The Exchange represents that it deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. In support of this proposal, the Exchange has also made the following representations:

- (1) The Shares of the Fund will conform to the initial and continued listing criteria under NYSE Arca Equities Rule 8.600.
- (2) The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions.
- (3) Trading in the Shares will be subject to the existing trading surveillances, administered by FINRA on behalf of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws, and these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and federal securities laws applicable to trading on the Exchange.
- (4) Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit Holders in a Bulletin of the special characteristics and risks associated with trading the Shares. Specifically, the Bulletin will discuss the following: (a) the procedures for purchases and redemptions of Shares in Creation Units (and that Shares are not individually redeemable); (b) NYSE Arca Equities Rule 9.2(a), which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Shares; (c) the

risks involved in trading the Shares during the Opening and Late Trading Sessions when an updated PIV will not be calculated or publicly disseminated; (d) how information regarding the PIV and the Disclosed Portfolio is disseminated; (e) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (f) trading information.

- (5) For initial and/or continued listing, the Fund will be in compliance with Rule 10A-3<sup>28</sup> under the Act, as provided by NYSE Arca Equities Rule 5.3.
- (6) The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), including Rule 144A securities deemed illiquid by the Adviser, consistent with Commission guidance. The Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained, and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of the Fund's net assets are held in illiquid assets.
- (7) The Fund will limit its investment in non-government sponsored residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities (including equipment trust certificates) as well as bank loans and illiquid restricted securities, in the aggregate, to 20% or less of the Fund's net assets.

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<sup>28</sup> 17 CFR 240 10A-3.

- (8) Not more than 10% of the net assets of the Fund will be invested in non-exchange-listed ADRs.
- (9) Not more than 10% of the net assets of the Fund in the aggregate invested in exchange-traded equity securities shall consist of equity securities whose principal market is not a member of the ISG or party to a CSSA with the Exchange.
- (10) A minimum of 100,000 Shares will be outstanding at the commencement of trading on the Exchange.

This approval order is based on all of the Exchange's representations, including those set forth above and in the Notice.

For the foregoing reasons, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) of the Act<sup>29</sup> and the rules and regulations thereunder applicable to a national securities exchange.

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<sup>29</sup> 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Exchange Act, that the proposed rule change (SR-NYSEArca-2015-15), as modified by Amendment No. 1, is hereby approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>30</sup>

Brent J. Fields,  
Secretary.

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<sup>30</sup> 17 CFR 200.30-3(a)(12).