associate companies to be charged on an ''at cost'' basis except as permitted by rule or order of the Commission. The Applicants request an exemption from section 13(b) of the Act and the at cost standards of rules 90 and 91 thereunder for services provided by Interstate Services to foreign utility companies (''FUCOs'') or to any associate company which does not derive, directly or indirectly, any material part of its income from sources within the United States and which is not a public utility operating within the United States.

The Applicants also propose that Interstate Energy subsidiaries may provide goods and services, including operation and maintenance and consulting, and request an exemption from the at cost standards of section 13(b) and the rules thereunder for the sale of such services and goods, to entities that will qualify as FUCOs following the Transaction.

Finally, the Applicants state that WP&L, South Beloit, Utilities and IPC may provide each other with services incidental to their utility businesses, in accordance with rule 87(a)(3), such as meter reading, materials management, gas purchasing, transportation, and line and gas trouble crews. The Applicants state such services will be provided at cost.

Issuance of Stock: Benefits and Shareholder Protection Plans

The Applicants propose, from time to time for five years from the date of an order issued in this matter, to issue and/or acquire in open market or privately negotiated transactions up to 11 million shares of authorized Interstate Energy Common Stock under its dividend reinvestment and stock purchase plan, long-term equity incentive plan and certain other employee benefit plans.

Each of the Applicants has an existing dividend reinvestment and stock purchase plan. Following consummation of the Transaction, the IES and IPC plans will cease and participants in those plans may elect to participate in the WPLH plan, which will become the Interstate Energy dividend reinvestment plan (''DRIP''). Participants in the DRIP may invest cash dividends and/or optional cash payments in shares of Interstate Energy. Shares purchased directly from Interstate Energy will be authorized but unissued Treasury shares. Following the Transaction, decisions to purchase shares for the DRIP directly from Interstate Energy, in the open market, or in privately negotiated transactions will be based on Interstate Energy's need for common equity and other relevant factors. Proceeds from the purchase of shares from Interstate Energy will be available for general corporate purposes, and Interstate Energy will not use such proceeds to acquire an interest in any EWG or FUCO.

WPLH currently has in effect a Long-Term Equity Incentive Plan, which will remain in place and become Interstate Energy's plan (the ''Long-Term Plan'') following consummation of the Transaction. The Long-Term Plan will provide stock awards to key employees of Interstate Energy and its subsidiaries, and will replace the IES Long-Term Incentive Plan. Pursuant to the Merger Agreement, participants in the IES plan will receive, based on awards and outstanding options and tandem stock appreciation rights, the right to exchange shares of IES common stock, using the exchange ratio, for Interstate Energy Common Stock.

Each of WPLH, IES and IPC also has plans that provide for the issuance of shares of its common stock to employees participating in various stock purchase plans, such as retirement savings plans, employee savings plans, bonus stock ownership plans, and 401(k) plans. The plans will remain in effect following the consummation of the Transaction, and each plan will be modified to provide for the acquisition of Interstate Energy Common Stock.

The Applicants also propose to implement the terms of the Rights Agreement to: (1) issue the right, attached to each outstanding share of Interstate Energy Common Stock (including shares issued to effect the Transaction), to purchase additional shares of Interstate Energy Common Stock under certain circumstances (''Rights''); (2) issue and sell Interstate Energy Common Stock or other Interstate Energy securities or assets upon the exercise of the Rights; (3) redeem the Rights of issue Interstate Energy Common Stock or other Interstate Energy securities in exchange for the Rights; and (4) amend the Rights Agreement as permitted by its terms. If the Rights become exercisable, holders (excluding 20% shareholders) will be entitled to purchase one-half share of Interstate Energy Common Stock for $30; additional rights may accrue under certain circumstances. The Rights become exercisable upon the acquisition of 20% or more of Interstate Energy Common Stock. Rights may be redeemed at $0.01 per Right before a 20% acquiring party exists, and may thereafter be exchanged for one share of Interstate Energy Common Stock per Right until the existence of a 50% acquirer. The Rights do not have voting or dividend rights, and expire on February 22, 1999.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96–26930 Filed 10–18–96; 8:45 am]

BILLING CODE 8010–01–M

[Release No. 34–37808; File No. SR–CBOE–96–35]

Self-Regulatory Organizations; Order Granting Approval to Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval to Amendment No. 1 to Proposed Rule Change by the Chicago Board Options Exchange, Inc., to Amend the Firm Facilitation Exemption

October 10, 1996.

I. Introduction

On June 12, 1996, the Chicago Board Options Exchange, Inc. (''CBOE'' or ''Exchange'') submitted to the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] a proposed rule change to amend its firm facilitation exemption.

Notice of the proposed rule change appeared in the Federal Register on July 11, 1996.[3] No comments were received on the proposed rule change. The Exchange subsequently filed Amendment No. 1 to the proposed rule change on September 25, 1996.[4] This order approves the CBOE's proposal, as amended.

II. Background and Description

Earlier in 1996, the CBOE obtained Commission approval to expand the firm facilitation exemption [5] that was available for SPX index options and interest rate options to all non-multiply-listed Exchange option classes.[6] Currently, only a member firm who

[1] 15 U.S.C. 78s(b)(1) (1988).

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 37393 (July 2, 1996), 61 FR 36592 (July 11, 1996).

[4] In Amendment No. 1, the CBOE revised the proposed rule language of Interpretation .06 to Exchange Rule 4.11 so that ''a member firm who receives a customer order for execution only against the member firm's proprietary account'' may qualify for the facilitation exemption. *See* letter from Patricia L. Cerny, Director, Department of Market Regulation, to Holly Smith, Associate Director, Division of Market Regulation, Commission, dated September 25, 1996 (''Amendment No. 1'').

[5] The CBOE notes that a facilitation trade is a transaction that involves crossing an order of a member firm's public customer with an order from the member firm's proprietary account.

[6] *See* Securities Exchange Act Release No. 36964 (March 13, 1996), 61 FR 11453 (March 20, 1996) (File No. SR–CBOE–95–68).

facilitates and executes an order for its own customer[7] may qualify for a firm facilitation exemption.[8]

The CBOE is proposing to amend the firm facilitation exemption in two ways. First, a member firm who facilitates its own customer whose account it carries, whether the firm executes the order itself or gives the order to an independent broker for execution may qualify for the exemption. Second, the facilitation exemption will be expanded to include member firms who facilitate another member's customer order. Such customer order must be for execution only against the member firm's proprietary account. Further, unlike a member firm that facilitates its own customer, the resulting position will not be carried by the facilitating member firm.[9]

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b)(5).[10] Specifically, the Commission believes that by allowing member firms an exemption from position limits to facilitate large customer orders, whether they are firms who accept customer orders for execution only against the member firm's proprietary account, or they are firms who carry their own customers' accounts and positions, the depth and liquidity of the market will be enhanced in a manner consistent with the protection of investors and the public interest. Further, permitting a member firm who facilitates its own customer order to qualify for the exemption whether it executes the order itself or gives it to an independent broker for execution should provide firms with flexibility in handling such orders while still requiring compliance with the rule's requirements.[11]

The Commission believes that the CBOE's proposal to amend its firm facilitation exemption will accommodate the needs of investors as well as market participants without substantially increasing concerns regarding the potential for manipulation and other trading abuses. The Commission also believes that the proposed rule change will further enhance the potential depth and liquidity of the options market as well as the underlying markets by providing Exchange members greater flexibility in executing large customer orders. Moreover, the Commission is relying on the absence of discernible manipulation problems under the CBOE's current firm facilitation exemption as an indicator that the proposal is appropriate.

In addition, the CBOE's existing safeguards that apply to the current facilitation exemption will continue to serve to minimize any potential disruption or manipulation concerns. First, the facilitation firm must receive approval from the Exchange's Exemption Committee prior to executing facilitating trades.[12] Second, a facilitation firm must, within five business days after the execution of a facilitation exemption order, hedge all exempt options positions that have not previously been liquidated, and furnish to the Exchange's Department of Market Regulation documentation reflecting the resulting hedging positions.[13] In meeting this requirement, the facilitation firm must liquidate and establish its customer's and its own options and stock positions or their equivalent in an orderly fashion, and not in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes.[14] In addition, a facilitation firm is not permitted to use the facilitation exemption for the purpose of engaging in index arbitrage.[15] The Commission believes that these requirements will help to ensure that the facilitation exemption will not have an undue market impact on the options or on any underlying stock positions.

Third, the facilitation firm is required to promptly provide to the Exchange any information or documents requested concerning the exempted options positions and the positions hedging them, as well as to promptly notify the Exchange of any material change in the exempted options position or the hedge.[16]

Fourth, neither the member's nor the customer's order may be contingent on ''all or none'' or ''fill or kill'' instructions, and the orders may not be executed until Exchange Rule 6.74(b) (crossing order) procedures have been satisfied and crowd members have been given a reasonable time to participate in the trade.[17]

Fifth, the facilitation firm may not increase the exempted option position once it is closed, unless approval from the CBOE is again received pursuant to a reapplication.[18]

Lastly, violation of any of these provisions, absent reasonable justification or excuse, will result in the withdrawal of the facilitation exemption and may form the basis for subsequent denial of an application for a facilitation exemption.[19]

In summary, the Commission continues to believe that the safeguards built into the facilitation exemptive process will serve to minimize the potential for disruption and manipulation concerns, while at the same time benefitting market participants by allowing member firms greater flexibility to facilitate large customer orders. The Commission also notes that the facilitation exemption will be monitored in the same manner, whether the facilitation is done by the member firm for its own customer and executed by the firm itself or given to an independent broker for execution, or whether the facilitation is done by another member firm willing to facilitate the order of another member firm's customer. Further, as noted above, any firm solicitation to facilitate a customer order must comply with the CBOE's solicitation rules as well as with the CBOE's facilitation and crossing rules.[20] Lastly, the Commission believes that the CBOE has adequate surveillance procedures to surveil for compliance with the rule's requirements. Based on these reasons, the Commission believes that it is appropriate for the CBOE to amend its firm facilitation exemption.

The Commission finds good cause to approve Amendment No. 1 to the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. Specifically, because the revised rule langugage contained in Amendment No. 1 only serves to clarify the Exchange's original intent, no new regulatory concerns are raised. In addition, the CBOE's rule proposal was published for the entire twenty-one day comment period and generated no responses. Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and

[7] The CBOE defines a customer order as one that is entered, cleared, and in which the resulting position is carried with the firm.

[8] *See* Interpretation .06 to Exchange Rule 4.11.

[9] The Commission notes that any solicitation of a member by another member or customer to facilitate a customer order must comply with Exchange Rule 6.9 concerning solicited transactions.

[10] 15 U.S.C. 78f(b)(5) (1988).

[11] *See infra* notes 9 and 17 and accompanying text.

[12] *See* Interpretation .06(a) to Exchange Rule 4.11.

[13] *See* Interpretation .06(d) to Exchange Rule 4.11.

[14] *See* Interpretation .06(e)(1) to Exchange Rule 4.11.

[15] *Id.*

[16] *See* Interpretations .06(b) and .06(e)(2) to Exchange Rule 4.11.

[17] *See* Interpretations .06(c)(1) and .06(c)(2) to Exchange Rule 4.11.

[18] *See* Interpretation .06(e)(3) to Exchange Rule 4.11.

[19] *See* Interpretation .06(f) to Exchange Rule 4.11.

[20] *See supra* notes 9 and 17.

19(b)(2) of the Act to approve Amendment No. 1 to the proposed rule change on an accelerated basis.

Interested persons are invited to submit written data, views, and arguments concerning Amendment No. 1 to the rule proposal. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing also will be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR–CBOE–96–35 and should be submitted by November 12, 1996.

IV. Conclusion

For the foregoing reasons, the Commission finds that the CBOE's proposal to amend its firm facilitation exemption is consistent with the requirements of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[21] that the proposed rule change (SR–CBOE–96–35), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[22]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96–26856 Filed 10–18–96; 8:45 am]

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[Release No. 34–37815; File No. SR–CBOE–96–61]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to the Opening of New Series of OEX Index Options

October 11, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4[2] thereunder, notice is hereby given that on October 9, 1996, the Chicago Board Options Exchange, Incorporated (''CBOE'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to grant accelerated approval of the proposed rule change.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 24.9, Interpretation and Policy .01 regarding the listing of additional series of index options on the Standard & Poor's 100 (''S&P 100'' or ''OEX'') Index options in order to take into account the signficantly increased levels of the S&P 100 since the listing procedures were implemented. The text of the proposed rule change is available at the Office of the Secretary, CBOE and at the Commission.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change, and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose. The purpose of the proposed rule change is to amend the procedures for listing additional series of index options on the S&P 100 Index (OEX ®) in order to take into account the significantly increased levels of the S&P 100 Index since these procedures were first put in place. Under existing Interpretation and Policy .01 under Exchange Rule 24.9, when the Exchange introduces trading in a new expiration month for a class of OEX options, it may initially list series of options with strike prices at four strike price intervals above and four strike price intervals below the current value of the Index. Subsequently, as the value of the Index moves up or down, the Exchange may list additional series of options (up until the fifth day prior to expiration), such that under ordinary circumstances there may be available for trading series of OEX options with a given expiration date having strike prices at up to five strike price intervals above and up to five strike intervals below the current value of the Index. In unusual market conditions (such as at times of heightened volatility) additional series may be added at up to six strike price intervals above and six strike price intervals below the current value of the Index. Of course, series of options previously opened continue to be available, so that there may be more than the stated number of series traded at strike price intervals opposite to the direction in which the index value has moved.

For example, if a new expiration month is introduced in an OEX option at a time when the current value of the S&P 100 Index is 598, so long as the strike price interval for OEX options remains at 5 points, series of OEX options will be available at 580, 585, 590 and 595 (four intervals below the current Index value) and at 600, 605, 610, and 615 (four intervals above the current Index value). If the value of the Index then moves to 608, under normal conditions the Exchange would be able to add series with strike prices of 620, 625 and 630, which, together with the 610s and the 615s, provide five series above the current level of the Index. In unusual market conditions, the Exchange could add sixth series with a strike price of 635. In this example, there would continue to be traded six series with strike prices below the current level of the Index (that is, the 580, 585, 590, 595, 600 and 605 series).

When the current methodology for adding series of OEX options was adopted in 1992, the S&P Index was at 380. This meant that five intervals (25 points) constituted over 6½% of the value of the index, and six intervals (30 points) constituted almost 8% of the index value.[3] Since that time, the value of the S&P 100 Index has increased considerably, to the point where it has recently exceeded 670. At this level, five strike price intervals constitutes less

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[21] 15 U.S.C. 78s(b)(2) (1988).

[22] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. § 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] This was consistent with the prior methodology for adding new series of OEX options, which permitted up to four strike price intervals and was adopted at a time when the value of the index was 265, thus allowing OEX options to be added up to 7½% away from the market.