

investment in EWGs and FUCOs will not exceed 50% of its consolidated retained earnings, as defined in rule 53, and that at the time of each issuance, the proceeds of which will be used to invest in EWGs or FUCOs, NCE will be in compliance with rule 53.

The authorization requested by the Applicants would be subject to the following conditions: (1) NCE's (and each Utility Subsidiary's) common equity will be at least 30% of its consolidated capitalization, as adjusted to reflect subsequent events that affect capitalization; (2) the effective cost of money on short-term debt financings may not exceed 300 basis points over the London interbank offered rate; (3) the effective cost of money on preferred stock and other fixed income oriented securities may not exceed 500 basis points over the interest rate on 30-year U.S. Treasury securities; (4) issuance expenses in connection with an offering of securities, including any underwriting fees, commissions, or other similar compensation, may not exceed 5% of the total amount of the securities being issued; and (5) the aggregate amount of external financing, not including existing financing arrangements, will not exceed (i) \$535 million from NCE's issuance and sale of common stock, excluding amounts from the issuance of up to 30 million shares of common stock to fund the Stock Plans, (ii) \$225 million from NCE's issuance and sale of short-term debt, (iii) \$25 million from Cheyenne's issuance and sale of short-term debt, and (iv) \$150 million from PSCCC's issuance and sale of medium-term notes; (6) the aggregate amount of guarantees will not exceed (i) \$300 million for NCE to guarantee or provide credit support for obligations of its Subsidiaries, (ii) \$450 million for PSCs to guarantee or provide credit support for certain of its subsidiaries, and (iii) \$50 million for Subsidiaries to guarantee or provide credit support to other Subsidiaries; and (7) intrasystem financing will not exceed \$300 million for NCE to finance its Subsidiaries, and Subsidiaries to finance Subsidiaries.

The Applicants request authorization to deviate from the Commission's *Statement of Policy Regarding First Mortgage Bonds*, HCAR No. 13105 (Feb. 16, 1956), as amended by HCAR No. 16369 (May 8, 1969), and *Statement of Policy Regarding Preferred Stock*, HCAR No. 13106 (Feb. 16, 1956), as amended by HCAR No. 16758 (June 22, 1970), as applicable, with respect to the proposed financings.

American Electric Power Co., et al. (70-9021)

American Electric Power Company, Inc. ("AEP"), a registered holding company, and AEP Resources, Inc. ("AEP Resources"), a nonutility subsidiary company of AEP, both of 1 Riverside Plaza, Columbus, Ohio, 43215, have filed a declaration under sections 6(a), 7, 12(b), 32 and 33 of the Act and rules 45, 53 and 54 thereunder.

AEP, through its direct and indirect subsidiary companies, is engaged in development activities relative to exempt wholesale generators ("EWGs"), as defined in section 32 of the Act, and foreign utility companies ("FUCOs"), as defined in section 33 of the Act.

AEP is authorized under several Commission orders ("Orders") to finance these activities through the issuance and sale of debt and equity securities and through the issuance of guarantees relative to the obligations of certain subsidiary companies.⁵

Under the Orders, AEP is authorized to use the proceeds of common stock sales and borrowings to finance the acquisition of interests in EWGs and FUCOs and to issue guarantees relative to the obligation of such entities, provided that the sum of the guarantees and the net proceeds of common stock sales and borrowing used for this purpose, together with AEP's aggregate investment in all EWGs and FUCOs, shall not exceed 50% of its consolidated retained earnings.

AEP and AEP Resources request that the Commission authorize them to issue securities for the purpose of financing the acquisition, directly or indirectly, of interests in EWGs and FUCOs, and to issue guarantees relative to the obligations of such entities, in an aggregate amount that, together with AEP's aggregate investment in all EWGs and FUCOs, would not exceed 100% of its consolidated retained earnings.

The consolidated retained earnings of AEP through December 31, 1996 were about \$1.508 billion. Thus, under rule 53(a), it was authorized to invest up to about \$754 million in EWGs and FUCOs. Although AEP had aggregate investments of about \$1 million through December 31, 1996, in February 1997, it committed about \$360 million to its investment in Yorkshire Electricity Group plc. In addition, it has \$110 million designated for another FUCO, of which about \$11.5 million was invested through March 13, 1997. AEP is considering further investment

⁵ HCAR No. 24898 (June 6, 1989); HCAR No. 25905 (Oct. 8, 1993); HCAR No. 25984 (Feb. 4, 1994); HCAR No. 26200 (Dec. 22, 1994); HCAR No. 26516 (May 10, 1996).

opportunities, some of which would require an investment in excess of the approximately \$284 million that it would be authorized to invest under rule 53(a).

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

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38526; International Series Release No. 1074 File No. SR-AMEX-97-15]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the American Stock Exchange, Inc. Relating to Options on the NatWest Energy Index

April 18, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 20, 1997, the American Stock Exchange, Inc. ("Amex" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change. On April 16, 1997, the Exchange filed Amendment No. 1³ to the proposed rule change as described in Items I, II and III 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.

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

Amex proposes to trade options on The NatWest Energy Index ("the Index"), a narrow based index developed by the Amex and NatWest Securities Corporation based on stocks (or ADRs thereon) of companies whose business is in various segments of the energy industry. In addition, the Amex proposes to amend (1) Rule 901C,

¹ 15 U.S.C. § 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Letter from Claire P. McGrath, Amex to Ivette Lopez, SEC, dated April 16, 1997 ("Amendment No. 1"). Amendment No. 1 corrects language in the filing indicating that the list of replacement stocks will be furnished quarterly. Because the NatWest Energy Index will be rebalanced annually, NatWest will provide the Amex with a current list of replacement stocks annually.

Commentary .01 to reflect that 90% of the Index's numerical index value will be accounted for by stocks that meet the current criteria and guidelines set forth in Rule 915; and (2) Rule 902C to include the NatWest Energy Index in the disclaimer provisions of the rule.

The text of the proposed rule change is available at the Office of the Secretary, Amex 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 Amex and NatWest Securities Corporation ("NatWest") have developed a new index called The NatWest Energy Index ("Index"), based entirely on shares of widely held companies involved in producing and providing different types of energy products. The industries represented by these companies are domestic and international oil producers, refiners and transmitters, oil equipment manufacturers and drillers, and natural gas producers.

Eligibility Standards for Index Components

The NatWest Energy Index conforms with Exchange Rule 901C which specifies criteria for inclusion of stocks in an index on which standardized options will be traded. In addition, the Index has met the following standards: (1) Each of the component securities are traded on the Amex, the New York Stock Exchange or through Nasdaq and are reported national market system securities; (2) each of the component securities has a minimum market capitalization of at least \$75 million;⁴ (3) each of the components have had a monthly trading volume of at least one million shares during each of the

⁴In the case of ADRs, this represents market value as measured by total world-wide shares outstanding.

previous six months; (4) each of the component securities in the Index has met the initial eligibility criteria for standardized options trading set forth in rule 915; (5) foreign country securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements do not in the aggregate represent more than 20% of the weight of the Index; and (6) no individual component stock in the Index represents more than 25 percent of the weight of the Index, and the top five highest weighted stocks do not constitute more than 50 percent of the weight of the Index. The criteria set forth above are identical to the criteria established for the expedited listing of options on stock industry indexes pursuant to Exchange Rule 901C, Commentary .02.⁵ In fact, this Index would have been filed pursuant to that expedited process if it were not for its annual rather than quarterly rebalancing feature which is discussed in the section entitled Index Calculation.

Maintenance of the Index

The Index will be maintained in accordance with Rule 901C, Commentary .02 which provides that the Index continues to meet the Eligibility Standards set forth above, except that, (1) The total number of component securities will not increase or decrease by more than 33 $\frac{1}{3}$ % from the number of components in the Index at the time of its initial listing and in no event will the Index have less than nine components; (2) component stocks constituting the top 90% of the Index by weight, will have a minimum market capitalization of \$75 million and the component stocks constituting the bottom 10% of the Index, by weight, will have a minimum market capitalization of \$50 million;⁶ (3) the monthly trading volume of each component security shall be at least 500,000 shares, or for each of the lowest weighted components in the Index that in the aggregate account for no more than 10% of the weight of the Index, the

⁵ See Securities Exchange Act Release No. 34157 (June 3, 1994), 59 FR 30062 (June 10, 1994) ("Generic Index Approval Order") (File No. SR-Amex-92-35). As required, the Exchange has provided the Commission with written representations that the Options Price Reporting Authority has the necessary systems capacity to support the new series of options. See Letter from Joe Corrigan, OPRA to Ivette Lopez, SEC, dated April 15, 1997. In addition, a letter representing that the Amex has the necessary systems capacity to support the new series of options has been received by the Commission. See Letter from Edward Cook Jr., Amex to Ivette Lopez, SEC, dated April 7, 1997.

⁶In the case of ADRs, this represents market value as measured by total world-wide shares outstanding.

monthly trading volume shall be at least 400,000 shares; (4) no single components will represent more than 25% of the weight of the Index and the five highest weighted component will represent no more than 50% of the Index as of the first day of January and July in each year; and (5) 90% of the Index's numerical index value and at least 80% of the total number of component securities will meet the then current criteria for standardized option trading set forth in Exchange Rule 915.

Should the Index fail to satisfy any of the maintenance criteria set forth above, the Amex will notify Commission staff to determine the appropriate regulatory response. Such responses could include, but are not limited to, prohibiting opening transactions or allowing only closing transactions. In addition, the Exchange shall not open for trading any additional option series unless such failure is determined by the Exchange not to be significant and the Commission concurs in that determination.

The Index will be maintained by the Amex in consultation with NatWest who may, from time to time, suggest changes in the Index's components, in the industry categories represented or in the number of component stocks in an industry category to properly reflect the changing conditions in the energy sector. At the beginning of each calendar year, NatWest will provide the Amex with a current list of replacement stocks on which to draw in the event that a component in the Index is to be replaced. The stocks in the replacement list will be selected and ranked by NatWest based on a number of criteria, including conformity to the initial eligibility standards set forth above, trading liquidity, market capitalization, the ability to borrow shares and share price. The replacement stocks will be categorized by industry within the energy sector and ranked within their category based on the aforementioned criteria. The replacement stock for a security leaving the Index will be selected by the Amex from the replacement list based on industry category and liquidity.

In addition, NatWest will advise the Exchange regarding the handling of unusual corporate actions which may arise from time to time. Routine corporate actions (e.g., stock splits, routine spin-offs, etc.) which require straightforward index divisor adjustments will be handled by Exchange staff without consultation with NatWest. All stock replacements and unusual divisor adjustments caused by the occurrence of extraordinary events such as dissolution, merger,

bankruptcy, non-routine spin-offs or extraordinary dividends will be made by Exchange staff in consultation with NatWest. All stock replacements and the handling of non-routine corporate actions will be announced at least ten business days in advance of such effective change, whenever practicable. As with all options currently trading on the Amex, the Exchange will make this information available to the public through dissemination of an information circular.

Since this Index is being maintained, in part, by a broker/dealer (NatWest Securities Corporation), a "chinese wall" shall be erected by NatWest around the personnel who have access to information concerning changes and adjustments to the Index. A letter discussing those "chinese wall" procedures has been sent to the Commission under separate cover.

Index Calculation

The Index shall be calculated by the Amex using an "equal-dollar weighting" methodology designed to ensure that each of the component securities is represented in an approximately "equal" dollar amount in the Index. The following is a description of how the equal-dollar weighting calculation method works. As of the market close on December 20, 1996, a portfolio of stocks was established representing an investment of \$100,000 in the stock (rounded to the nearest whole share) of each of the companies in the Index. The value of the Index equals the current market value (i.e., based on U.S. primary market prices) of the sum of the assigned number of shares of each of the stocks in the Index portfolio divided by the Index divisor. The Index divisor was initially determined to yield a benchmark value of 250.00 at the close of trading on December 20, 1996. Annually thereafter, following the close of trading on the third Friday of December, the Index portfolio will be adjusted by changing the number of whole shares of each component stock so that each company is again represented in "equal" dollar amounts. If necessary, a divisor adjustment is made at the rebalancing to ensure continuity of the Index's value. The newly adjusted portfolio becomes the basis for the Index's value on the first trading day following the annual adjustment. While the Index is to be rebalanced annually, the Exchange will, if at any time between annual rebalancings the top five stock in the Index by weight represent in the aggregate more than one-third of the Index's value, rebalance the Index after the close of trading on expiration Friday

in the next month on the March cycle. For example, if in July it is determined that the top five components in the Index account for more than one-third of the Index's weight, then the Index will be rebalanced after the close of trading on expiration Friday in September.

As noted above, the number of shares of each component stock in the Index portfolio remains fixed between annual reviews except in the event of certain types of corporate actions such as the payment of a dividend other than an ordinary cash dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, or similar event with respect to the component stocks. In a merger or consolidation of an issuer of a component stock, if the stock remains in the Index, the number of shares of that security in the portfolio will be adjusted, if necessary, to the nearest whole share, to maintain the component's relative weight in the Index at the level immediately prior to the corporate action. In the event of a stock replacement, the dollar value of the security being replaced will be calculated and that amount invested in the stock of the new component, to the nearest whole share. In all cases, the divisor will be adjusted, if necessary, to ensure Index continuity.

Similar to other stock index values published by the Exchange, the value of each Index will be calculated continuously and disseminated every 15 seconds over the Consolidated Tape Association's Network B.

Expiration and Settlement

The proposed options on the Index will be European style (i.e., exercises are permitted at expiration only), and cash settled. Standard option trading hours (9:30 a.m. to 4:10 p.m. New York time) will apply. The options on The NatWest Energy Index will expire on the Saturday following the third Friday of the expiration month ("Expiration Friday"). The last trading day in an expiring option series will normally be the second to last business day preceding the Saturday following the third Friday of the expiration month (normally a Thursday). Trading in expiring options will cease at the close of trading on the last trading day.

The Exchange plans to list option series with expirations in the three near-term calendar months and in the two additional calendar months in the March cycle. In addition, longer term option series having up to thirty-six months to expiration may be traded. In lieu of such long-term options on a full

value Index level, the Exchange may instead list long-term, reduced value put and call options based on one-tenth ($\frac{1}{10}$ th) the Index's full value. In either event, the interval between expiration months for either a full value or reduced value long-term option will not be less than six months. The trading of any long term options would be subject to the same rules which govern the trading of all the Exchange's index options, including sales practice rules, margin requirements and floor trading procedures and all options will have European style exercise. Position limits on reduced value long term NatWest Energy Index options will be equivalent to the position limits for regular (full value) Index options and would be aggregated with such options (for example, if the position limit for the full value options is 15,000 contracts on the same side of the market, then the position limit for the reduced value options will be 150,000 contracts on the same side of the market).

The exercise settlement value for all of the Index's expiring options will be calculated based upon the primary exchange regular way opening sale prices for the component stocks. In the case of securities traded through Nasdaq system, the first reported regular way sale price will be used. If any component stock does not open for trading on its primary market on the last trading day before expiration, then the prior day's last sale price will be used in the calculation.

Exchange Rules Applicable to Stock Index Options

Amex Rules 900C through 980C will apply to the trading of option contracts based on the Index. These Rules cover issues such as surveillance, exercise prices, and position limits. The Index is deemed to be a Stock Index Option under Rule 901C(a) and a Stock Index Industry Group under Rule 900C(b)(1). With respect to Rule 903C(b), the Exchange proposes to list near-the-money (i.e., within ten points above or below the current index value) option series on the Index at $2\frac{1}{2}$ point strike (exercise) price intervals when the value of the Index is below 200 points. In addition, the Exchange expects that the review required by Rule 904C(c) will result in a position limit of 15,000 contracts with respect to options on this Index. Surveillance procedures currently used to monitor trading in each of the Exchange's other index options will also be used to monitor trading in options on the NatWest Energy Index.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)(5) of the Act⁷ in that it is designed to prevent fraudulent and manipulative acts and practices and to perfect the mechanism of a free and open market.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any inappropriate burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the publication of this notice in the **Federal Register** or within such longer period (i) As the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organizations consents, the Commission will:

- (A) By order approve the proposed rule change, or
- (B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 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 USC § 552, will be available for inspection and copying at the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No.

SR-AMEX-97-15 and should be submitted by May 15, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38525; File No. SR-CBOE-97-11]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Inc., to Increase OEX Position and Exercise Limits, to Increase OEX Firm Facilitation Exemption, and to Increase OEX Index Hedge Exemption

April 18, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 26, 1997, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III 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.

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

The CBOE is proposing to amend Exchange Rule 24.4 to increase the position and exercise limits for options on the Standard & Poor's ("S&P") 100 Stock Index ("OEX"), to increase the OEX firm facilitation exemption, and to increase the OEX index hedge exemption.

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.

⁸ 17 C.F.R. 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1) (1988).

² 17 CFR 240.19b-4.

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

The CBOE is proposing a number of revisions to Exchange Rule 24.4, the position limit rule for broad-based index options. Member firms have expressed to the CBOE their need for relief from the current OEX position and exercise limits, which have not increased since 1987.³ At that time, position limits were increased to 25,000 contracts with no more than 15,000 contracts in the near term series. For the reasons discussed below, the Exchange is now proposing that the OEX position limits be raised to 75,000 contracts with no more than 50,000 contracts in the near term series.

Although OEX volume is less now than it was in 1987, OEX still enjoys larger average daily trading volume than any other index option and open interest has remained consistently high.⁴ In addition, the Exchange believes that a significant reason why volume has declined in OEX in the last couple of years is because large customers and member firms have been unable to complete large volume transactions in OEX due to position limit constraints.

Month/Year	OEX (Volume/open interest)
September 1992	377,554 contracts/1 million.
September 1993	332,467 contracts/1 million.
September 1994	423,589 contracts/1.3 million.
March 1995	521,891 contracts/1.4 million.
December 1995	301,118 contracts/1.23 million.
July 1996	479,577 contracts/1.08 million.
December 1996	314,949 contracts/1.2 million.

Institutions often use index-related derivative products to hedge the risks associated with holding diversified equity portfolios. Because of position limit concerns, many of these customers and firms use financially-equivalent

³ See Securities Exchange Act Release No. 24556 (June 5, 1987), 52 FR 22695 (June 15, 1987) (approval order increasing the position and exercise limits on the OEX from 15,000 contracts to 25,000 contracts) (File Nos. SR-CBOE-85-25 and SR-CBOE-87-26).

⁴ Average Daily Volume During Expiration Week and Open Interest on Expiration Friday.

⁷ 15 U.S.C. § 78f(b).