

its prospectus and in any marketing materials.

By the Commission.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-24959 Filed 9-16-98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 35-26916]

Filings Under the Public Utility Holding Company Act of 1935, as Amended ("Act")

September 11, 1998.

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated under the Act. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendments is/are available for public inspection through the Commission's Office of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by October 5, 1998, to the Secretary, Securities and Exchange Commission, Washington, DC 20549, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in case of an attorney at law, by certificate) should be filed with the request. Any request for hearing should identify specifically the issues of fact or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After October 5, 1998, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

American Electric Power Company, Inc., et al.

(70-9353)

American Electric Power Company, Inc. ("AEP"), a registered holding company, and AEP Energy Services, Inc. ("AEPES") and AEP Resources, Inc. ("Resources"), wholly owned non-utility subsidiaries of AEP (collectively, "Applicants"), all located at 1 Riverside Plaza, Columbus, Ohio 43215, have filed an application-declaration under

sections 6(a), 7, 9(a), 10 and 12(b) of the Act, and rule 54 under the Act.

By orders dated September 13, 1996 (HCAR No. 26572) and September 27, 1996 (HCAR No. 26583) (collectively, "1996 Orders"), this Commission authorized AEP to form one or more direct or indirect nonutility subsidiaries to broker and market certain energy commodities. Applicants now propose to acquire, through December 31, 2003 (the "Authorization Period"), certain non-utility energy assets in the United States (collectively, "Energy Assets").¹ Energy Assets would be incidental to, and would assist Applicants and their subsidiaries in connection with the energy trading, marketing and brokering activities authorized in the 1996 Orders.²

In addition, Applicants propose to acquire the equity securities of companies substantially all of whose physical properties consist of Energy Assets ("Energy Asset Companies"). Investments in Energy Assets or Energy Asset Companies would not exceed \$800 million ("Investment Limitation").

Furthermore, AEP proposes to issue securities to finance the acquisition of Energy Assets or of the equity securities of Energy Asset Companies. Securities which AEP proposes to issue would include common stock, long-term debt securities and guaranties of indebtedness issued by AEPES, Resources and any existing or new, direct or indirect subsidiary of AEPES or Resources ("Applicant Subsidiaries"). These guaranties would also include guaranties of securities issued by any existing or new, direct or indirect special purpose financing subsidiary of Applicants organized specifically for the purpose of financing the acquisition of Energy Assets or of the equity securities of Energy Asset Companies ("Special Purpose Subsidiary"). In addition, Applicants request authority during the Authorization Period For Applicant Subsidiaries, as well as any Special Purpose Subsidiary, to issue debt or equity securities to finance these acquisitions, including guarantees as appropriate, to the extent such issuances are not exempt under rule 52 or rule 45(b).

The aggregate outstanding amount of all financings to acquire Energy Assets, or equity securities of Energy Asset

¹ Energy Assets include natural gas production, gathering, processing, storage and transportation facilities and equipment, liquid oil reserves and storage facilities, and associated facilities.

² They would also be incidental to, and used to assist any other energy trading, marketing or brokering subsidiary later acquired by Applicants in connection with these activities.

Companies, will not exceed the Investment Limitation. Borrowings incurred or guaranteed would be evidenced by notes having maturities of not greater than 15 years from the date of issue. The financing authority sought is in addition to the financing authority granted to AEP by Commission order dated May 4, 1988 (HCAR No. 26867).

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

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40428; File No. SR-AMEX-98-23]

Self-Regulatory Organizations; Proposed Rule Change by the American Stock Exchange, Inc. Relating to Integrated Market Making for Fund Shares

September 10, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934,¹ and Rule 19b-4 thereunder,² notice is hereby given that on June 30, 1998, the American Stock Exchange, Inc. (the "Amex" or the "Exchange") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. 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 Amex proposes to amend Exchange Rules 175 and 958 to allow the trading of Fund Shares, options on Fund Shares and related index options at the same location on the Exchange's trading floor and by the same specialists and registered traders.

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 Amex included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

rule change. The text of these statements may be examined at the places specified in Item IV below. The Amex 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

Since 1992, the Exchange has listed and traded, pursuant to its equity trading rules, a number of products that derive their value from indexes or portfolios of other equity securities. These products include Exchange-listed securities representing interests in open-end unit investment trusts or open-end management investment companies that hold securities based on an index or a portfolio of securities (These products are collectively referred to hereinafter as "Fund Shares").³

The Exchange proposes to amend Exchange Rules 175 and 958 to allow the trading of Fund Shares, options on Fund Shares and related index options at the same location or adjacent locations on the Exchange's trading floor and by the same specialist units and registered traders (hereinafter referred to as "Exchange-wide fund share market making"). Amex believes that Exchange-wide fund share market making will provide a climate in which reduced customer trading costs will result from narrower spreads, cross product arbitrage, integrated risk management, increased liquidity and depth, higher trading volume and more effective and efficient servicing of customer order flow while assuring that there will be no undue advantage or preference among participants in the marketplace. Recent and expected future growth in the listing and trading of Fund Shares and the anticipated approval of the Exchange's proposed

filing concerning the trading of options on Fund Shares will permit customers and market makers to manage risks and coordinate related positions with lower trading costs and more effective and efficient execution of their investment strategies.⁴

The Exchange believes the proposed rule change will promote market efficiency by allowing the same specialist unit and registered traders to trade a number of related products, realizing the cost reducing advantages of cross product arbitrage and integrated risk management. Such advantages will result in narrower spreads, increased liquidity and depth, and higher trading volume in the markets for risk-related Fund Shares, options on Fund Shares and index options. Most importantly, the Exchange believes the proposed rule change will result in more effective and efficient servicing of customers' orders at lower expected transaction costs to the customers.

The Exchange believes that the proposed integration of market making in Fund Shares, options on Fund Shares and their related index options can increase market quality and will provide both price and operational efficiencies while raising minimal issues of informational advantage due to the derivative nature of all of these products.⁵ Such informational advantages are minimal because pricing of the Fund Shares is not based on supply of and demand for the Fund Shares, but on the value of the underlying index or portfolio of securities. For example, unlike stocks, prices of which are based in part on information regarding the performance of the issuer and the supply of and demand for the stock in the secondary market, Fund Shares are priced according to the current market prices of the underlying components held in the Fund Shares' portfolio trust. The

specialist for the Fund Shares is privy to information that indicates the supply of and demand for the Fund Shares themselves, but the specialist cannot rely upon such information when pricing Fund Shares since the index or basket of securities upon which the Fund Shares are based may not move in the same manner that the supply of and demand for the Fund Shares indicates. Accordingly, the Exchange does not believe that knowledge of limit orders on the specialist's book for the Fund Shares themselves provides an informational advantage to the specialist when pricing or trading the Fund Shares. The fund share market is a derivative market of underlying stocks and the markets for index options and fund share options is, correspondingly, a further derivative of this underlying market.

The Commission has stated that "[t]he integration of trading in options and their underlying securities on an exchange floor may create opportunities to engage in manipulative and other improper trading activities that do not presently exist."⁶ In order for the integration of market making in fund shares and their overlying options to create opportunities for the specialist and registered options traders to engage in manipulative activity, market making in both products must yield information that can be used in such an endeavor. As discussed in the previous section, the Exchange believes that neither the specialist nor the traders in any or all of these products are privy to exclusive market information that is useful in pricing the fund shares. Like all market participants, they have access to last sale information for each of the component securities, the current quotes for the components and price information for any other products such as a futures contract that may be used in pricing the fund shares. What little market information the specialist and traders are able to glean on the Exchange floor is more than likely known by other market participants and already factored into prices and quotes. In addition, given the enhanced surveillance systems that monitor all trading floor activity today, attempts to manipulate the market by a specialist or trader will be readily detected.

Among other reasons why limit orders in Fund Shares are not a source of informational advantage is the number of Fund Shares issued and outstanding may be increased or decreased at a very low cost in response to changing demand for the Fund Shares. A defining characteristic of all Amex-listed unit

³ Currently, the Exchange trades unit investment trust securities known as Portfolio Depository ReceiptsSM ("PDRs") based on the Standard & Poor's 500[®] Composite Stock Price Index, the Standard & Poor's MidCap 400 IndexTM and the Dow Jones Industrial Average. In addition, the Exchange trades fund shares which are issued by an open-end management investment company consisting of seventeen separate series known as World Equity Benchmark SharesSM ("WEBs") based on seventeen foreign equity indexes. PDRs and WEBs are listed on the Amex pursuant to Rule 1000, et seq. and rule 1000A et seq., respectively, and trade like shares of common stock. The Exchange is developing other fund shares for listing and trading which will have structures similar to PDRs and WEBs and proposes to trade options on many such securities. (See, Securities Exchange Act Release No. 36947 (March 8, 1996), 61 FR 10606 (March 14, 1996) for Fund Shares and Securities Exchange Act Release No. 31591 (December 11, 1992), 57 FR 60253 (December 18, 1992) for PDRs).

⁴ On July 1, 1998, the Commission approved a proposed rule change which permits the trading of options on Exchange-Traded Fund Shares. Securities Exchange Act Release No. 40157 (July 1, 1998), 63 FR 37426 (July 10, 1998).

⁵ At the Commission staff's request, the Exchange researched the issues of integrated market making and side-by-side trading. A letter setting forth the results of that research and an analysis of such activities with respect to Fund Shares and the overlying options was forwarded to the Commission staff. The letter reviews and analyzes Commission precedent for (and against) integrated market making as well as statements made by the Commission in the *Report of the Special Study of the Options Markets*, H.R. Rep. No. IFC3, 96th Cong. 1st sess. (Committee Print 1978) (referred to hereinafter as the "Options Study"). See, Letter from Claire P. McGrath, Vice President and Special Counsel, Derivative Securities Division, Amex, to Howard Kramer, Senior Associate Director, Division of Market Regulation, Commission, dated June 2, 1998.

⁶ *Options Study* at 885.

investment trust and management investment companies that hold securities based on an index or a portfolio of securities is that they are open-ended. New Fund Shares in these products may be created on any business day in response to an offer to purchase such shares. Accordingly, the ability of the seller of a call option on any such Fund Share to deliver upon exercise is a function of the availability of all the shares of the components represented in the trust, not just the share held by the fund itself. As a result, there is substantially less potential for manipulation of a Fund Share's price, since, unlike the market in a thinly traded corporate stock, the market for Fund Share's cannot be successfully squeezed or cornered because the potential supply to Fund Shares is, for all practical purposes, unlimited.

Lastly, although the Exchange believes that the proposed rule change will not increase the potential for trading abuse or manipulation, the Exchange currently has in place safeguards to detect and prevent any such abuse or manipulative activities. The Exchange believes its existing surveillance procedures are more than sufficient to detect any improper trading activity, deter any potential manipulative or improper trading activity and minimize the regulatory risks of integrated market making. The concentration of related product trading activity helps in the surveillance that assures that a customer receives a price appropriate to the state of the market when his order arrives on the trading floor. The Exchange conducts regular surveillance to detect any abuse or attempted manipulations and to insure compliance with its safeguards. The Exchange believes that the proximity of trading activity in related products will increase the effectiveness of these safeguards.⁷

⁷ In addition to the foregoing, in recent months the Commission has approved rule changes by other options exchanges which will permit these exchanges to list and trade, under unlisted trading privileges, some or all Fund Shares now listed on the Amex or which might be listed on the Amex or some other exchange in the future. In contrast to Amex rules which currently place limitations on option and equity trading locations and specialists' affiliations, the Amex believes that the rules of some of the other U.S. options exchanges impose no such limitations on trading locations, specialists' affiliations or market maker participation on these or related products. The proposed rule change will permit the Amex to conduct its business without unnecessary fetters not imposed on competitive markets. The changes will permit Amex specialists and market makers to use other related products traded on the Amex in the same way that specialists and market makers on other exchanges will be able to use related products traded on their exchanges in their market making and risk management

(2) Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act⁸ in general and furthers the objectives of Section 6(b)(5)⁹ in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

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

The Exchange does not believe that the proposed rule change will impose any 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 solicited or received with respect to the proposed rule change.

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

Within 35 days of the date of 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 Exchange consents, the Commission will:

(A) by order approve such 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, including whether the proposed rule change is consistent with the Act. 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

activities in Fund Shares and related options products.

⁸ 15 U.S.C. 78f.

⁹ 15 U.S.C. 78f(b)(5).

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 in the Commission's Public Reference Room, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to File No. SR-Amex-98-23 and should be submitted by October 8, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 98-24885 Filed 9-16-98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40430; File No. SR-CBOE-98-06]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendments Nos. 1 and 2 Thereto by the Chicago Board Options Exchange, Inc. Relating to the Rerouting of RAES Eligible Orders for the Last Five Minutes of the Scheduled Trading Day

September 10, 1998.

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 20, 1998, 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 CBOE. On April 9, 1998, the CBOE filed Amendment No. 1 to the proposed rule change with the Commission.³ On August 26, 1998, the CBOE filed Amendment No. 2 to the proposed rule change with the Commission.⁴ The

¹⁰ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, the Exchange clarified when the new rule will operate. See Letter from Timothy H. Thompson, Director, Regulatory Affairs, Legal Department, CBOE, to Ken Rosen, Attorney, Division of Market Regulation ("Division"), Commission, dated March 31, 1998 ("Amendment No. 1").

⁴ In Amendment No. 2, the Exchange amended the proposed rule language to account for a new "RAES step-up" feature and further explained the