As is the case with the SPX and interest rate firm facilitation exemptions, Exchange Rule 6.74(b) procedures for crossing a customer order with a firm facilitation order must be followed. In this regard, before a customer order can be crossed with a firm facilitation order, the trading crowd must be given reasonable opportunity to participate. Moreover, only after it has been determined that the trading crowd will not fill the order, may the firm's customer order be crossed with the firm's facilitation order.

In addition, except for the existing SPX and interest rate firm facilitation exemptions which are set at higher levels, the expanded firm facilitation exemption will be twice the standard limit.[10]

The CBOE notes that the firm facilitation exemption will be in addition to and separate from the standard limit, as well as other exemptions available under Exchange position limit rules. For example, if a firm desires to facilitate a customer order in the XYZ option class, which is assumed to be a class of options traded exclusively on the Exchange with a 25,000 contract standard position limit, the firm may qualify for a firm facilitation exemption of up to twice the standard limit (50,000 contracts), as well as an equity hedge exemption of up to twice the standard limit (50,000 contracts), in addition to the 25,000 contract standard limit. If both exemptions are allowed, the facilitation firm may hold or control a combined position of up to 125,000 XYZ contracts on the same side of the market.[11]

The CBOE notes, however, that the firm facilitation exemption will not extend to all option classes listed on the Exchange. Rather, until coordinated intermarket procedures are developed, the exemption will be extended only to non-multiply-listed option classes.[12]

The CBOE also proposes a new provision with respect to the requirement that the ''facilitation firm'' hedge the exempted position within five business days. The new provision would allow the facilitation firm to be granted an exemption from this requirement when opposite side of the market contracts are used to hedge the original facilitated customer order. In this regard, the Department of Market Regulation's staff would be responsible for granting the exemption for the hedge, and the facilitation firm would be required to submit documentation to the regulatory staff as to how the position was hedged.

Lastly, to aid in understanding the scope of the firm facilitation exemption, Interpretation .06 will include both a table and an example showing how the exemption will be applied.

The Exchange believes that expanding the firm facilitation exemption will contribute to the depth and liquidity of the market by allowing those member firms who are willing to commit firm capital the ability to facilitate large customer orders in a wide range of option classes. In approving the firm facilitation exemptions for SPX and interest rate options, the Commission expressed its opinion that providing member organizations with exemptions for the purpose of facilitating large customer orders would better serve the needs of the investing public by distributing the risks of large customer transactions to several market participants. At that time, the Commission also noted that safeguards were built into the exemption to minimize any potential disruption or manipulation concerns. The CBOE believes that these same benefits and assurances are also applicable with respect to the new firm facilitation exemption.

Because the expanded firm facilitation exemption will enhance the depth and liquidity of the market for both members and investors, the Exchange believes that the rule proposal is consistent with and furthers the objectives of Section 6(b)(5) of the Act in that it would remove impediments to and perfect the mechanism of a free and open market in a manner consistent with the protection of investors and the public interest.

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

The CBOE 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 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 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 CBOE 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 U.S.C. 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, NW, Washington, DC 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–95–68 and should be submitted by January 17, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[13]

Margaret H. McFarland,

Deputy Secretary.

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securities options (Rule 21.3) each mandate compliance with Rule 4.11.

[10] The CBOE notes that this filing does not propose to change the existing SPX and interest rate firm facilitation exemptions.

[11] 50,000 facilitation+50,000 hedge+25,000 standard=125,000 contracts

[12] The CBOE notes, however, that the Intermarket Surveillance Group (''ISG'') is currently working on developing such procedures.

[13] 17 CFR 200.30–3(a)(12) (1994).