

subject to the other conditions in the application.

6. The Company's Independent Directors will review quarterly all information concerning co-investment opportunities during the preceding quarter to determine whether the conditions in the application were complied with.

7. The Company will maintain the records required by section 57(f)(3) of the Act as if each of the investments permitted under these conditions were approved by the Company's Independent Directors under section 57(f).

8. No Independent Director of the Company will be a director or general partner of any Company Affiliate with which the Company co-invests.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-28365 Filed 10-24-97; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39261; File No. SR-CBOE-97-50]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Inc. to Relating to "Go Along" Orders

October 20, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on September 25, 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 proposes to issue a regulatory circular which would establish the representation of "go along" orders on the floor of the Exchange as a violation of just and equitable principles of trade pursuant to Exchange Rule 4.1. 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 Purposes of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to prohibit floor brokers from representing or executing "go along" orders (as further described below) on the floor of the Exchange. The representation or execution of such orders will be considered an act inconsistent with just and equitable principles of trade pursuant to Exchange Rule 4.1. The Exchange proposes to set forth the prohibition against the representation of "go along" orders in a regulatory circular describing the types of conduct which would be considered to be violative of just and equitable principles of trade.

Definition of "Go Along" Orders:

Generally, a "go along" order, or a "not held with the crowd" order, is an order that instructs a floor broker to bid or offer (as appropriate for the type of order) at the price established by the other participants in the trading crowd. Generally, the customer will specify whether the order is to buy or sell, the number of contracts, the series, and the strike price. Typically, the floor broker will be instructed to buy when the majority of the of the market-makers participating on a trade are selling. These orders often are placed by market-making firms as a side business, by upstairs broker-dealers who want to participate in "market making," and by specialists on other exchanges. These orders are entered in both multiply-traded and singly listed option classes. As proposed, such an order would be prohibited even if the bid or offer does not match exactly the price established by the other participants in the trading crowd as long as the customer has given the broker discretion to determine what to bid or offer based upon the prices established by the other participants.

Rationale for the Prohibition Against "Go Along Orders": The Exchange believes that the continued representation of this class of orders on the floor of the Exchange poses a serious threat to the continued viability of the CBOE market-maker system, as explained below.

The execution of "go along" orders provides a disincentive to the transaction of a market-making business and thus, threatens the continued viability of the market-making system.

The CBOE believes its market-maker system has, since its inception, provided liquid, deep, fair, and reliable markets for hundreds of option classes in thousands of different series. These liquid markets are brought about through the efforts of numerous market-makers who are willing to take on various affirmative obligations in exchange for the opportunity to stand in a trading crowd and trade with and against other market participants. The various affirmative obligations are established by Exchange rules,¹ including Rule 8.7 which, among other things, requires market-makers to "engage * * * in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class." Rule 8.7.03 imposes distribution of activity requirements on market-makers. Rule 8.51 obligates market-makers to honor disseminated market quotes. In addition to being required to meet the above obligations, CBOE market-makers are subject to plenary oversight and regulation by the CBOE.² In short, the system of affirmative obligations and oversight embodied in CBOE Rules subjects market-makers to a great deal of responsibility, in order to assure the quality and liquidity of the CBOE markets.

The CBOE believes that "go along" orders interfere with this obligation-opportunity trade-off of Exchange market-making. Essentially, those

¹ Congress intended that exchanges have the primary responsibility for the formulation and enforcement of the regulation of exchange market making. See Report of the Senate Banking, Housing and Urban Affairs Committee, Senate Report No. 94-75, April 14, 1975, to accompany S. 249, at p. 15. Section 11(b) of the Exchange Act and Exchange Act Rule 11b-1 codify that policy. In fact, certain of the obligations imposed on CBOE market-makers by CBOE rules are mandated by Rule 11b-1.

² Exchange Act Rule 11b-1(a)(2)(v) requires to CBOE to have procedures "to provide for effective and systematic surveillance of the activities" of its market-makers.

market participants, generally professional traders, who enter "go-along" orders are attempting to realize the opportunity of market-making without accepting any of the obligations. In addition, by their nature, "go along" orders do not provide any incremental liquidity or price discovery because the market participant entering the "go along" order is merely trading at a price at which the market-makers were willing to trade. These market participants, as customers, however, are not obligated to fulfill any of the obligations of market-makers and their activity is typically not subject to Commission or Exchange oversight. These orders can be entered from off the floor of the exchange and can be canceled at the complete discretion of the customer. Therefore, these orders dilute the participation of those market-makers who do provide liquidity on a continual basis both in good times and in bad.

Likewise, common sense dictates these orders do not provide any price discovery. As explained further below, options are priced in an efficient market such as the CBOE by the skill of the individual market-makers and their ability to employ complex pricing models and strategies. "Go along" orders add nothing to this process, but simply piggyback on the expertise and experience of those participants who have taken on affirmative obligations and have put their capital at risk.

The potential danger of this type of activity and any other activity that provides a disincentive to market-making is that this activity could lead to an irremediable decline of CBOE's existing market-making system and the protections to public investors that that system provides. It is hard work for CBOE market-makers to stand in crowds and fulfill their numerous obligations under Exchange rules. The regulation to which market-makers are subject may be necessary, but it is burdensome. If the rules of the Exchange allow a trader to send such orders from off the floor whenever he wants and to be able to cancel the orders at will, without having an affirmative obligation to stand behind any quotes and without being subject to oversight, more and more market-makers may decide to engage in such activity and forgo the numerous risks involved in market-making.³ The

³ Although these orders have been employed for years, the possibility that market-makers might decide to forgo market-making to trade from off of the floor is greater now than ever before. The Commission's approval of risk-based haircuts has reduced the traditional advantages market-makers have had in the area of capital charges and margin. In addition, the technological advancement of order

resultant decline in liquidity and capital would inevitably compromise the quality of CBOE's markets and harm the public. Ultimately, the proliferation of this type of activity could even threaten the viability of CBOE's markets. Ironically, these orders rely on the pricing efficiency of a market to be effective; yet, these orders interfere with that pricing efficiency.

Although a "go along" order may have some upper or lower limit price (but often it does not), the essence of a "go along" order is that it relies on the pricing of the market-makers in the crowd. A person entering a "go along" order, therefore, does not make any independent market judgment on the price of the option. It is the dependence upon the actions of the market-makers who establish the prices and provide liquidity that makes this type of order objectionable. Although market orders arguably also rely on the pricing of the market-makers, market orders do not provide a disincentive to market-making as "go along" orders do. Even if "go along" orders or similar orders were entered on the floor of the New York Stock Exchange or another stock exchange, the Exchange does not believe these orders would be as objectionable in the context of a stock exchange as they are on the CBOE options floor, because of the nature of the pricing of these derivative securities. On any given market there is only one market (bid and offer) for a particular stock. The price is determined according to the fundamentals of the issuer and according to the principles of supply and demand for the shares of the stock. Conversely, for any given underlying stock, there may be markets for twenty or more different puts and calls. Because options are derivative securities, the markets on these puts and calls are affected by information about the markets for the underlying securities and related interests, but also by complex mathematical formulas and volatility assumptions. The pricing of options is a necessary and critical function performed by market-makers and because of the complexity involved and the individual assumptions required it is obviously a function for which market-makers take a proprietary interest. Therefore, the use of an order to replicate the actions of the market-makers and to dilute their participation in a trade provides a disincentive to a market-maker to meet his affirmative obligations and to develop pricing formulas and strategies.

delivery systems continues to erode the time and place priority that has been one of the inducements to accepting the risks of market-making.

The prohibition of these types of orders does not limit market accessibility.

The Exchange understands the Commission's concern with ensuring the accessibility of public markets to orders from all market participants. The proposed prohibition would not be a prohibition against any category of market participants but against a type of activity that threatens the system itself. The prohibition would not limit access to CBOE markets to any person who has access to the market currently; any participant who currently employs "go along" orders would be entitled to enter limit orders, market orders, and any number of contingency orders. By specifying that the broker representing the order should trade with the market-makers in the crowd, the order ensures that these orders will be inaccessible to those market-makers.

The restriction is also designed to assure equal regulation of and a fair competition among all persons making markets on the CBOE, thus serving these important purposes of the Act. Individuals sending these types of orders as a pattern of behavior are attempting to act as market-makers without fulfilling affirmative obligations. Any person who wishes to compete as a market-maker in CBOE securities can do so by becoming a CBOE member and subjecting himself to the same restrictions, obligations, and surveillance as every other CBOE market-maker. There is no burden on competition or unfair limit on market access to require all competitors to play by the same ground rules.

The CBOE believes that its market-maker system has served and continues to serve the public well by providing deep and liquid markets for hundreds of classes of options listed on the Exchange. As a result, the Exchange believes it is appropriate to prohibit activity that threatens this system without any resulting public benefit.

2. Statutory Basis

By prohibiting certain types of orders that interfere with the continued performance of the CBOE market-maker system and assuring equal regulation of and a fair competition among all persons making markets on the CBOE, CBOE believes that the proposed rule change is consistent with and furthers the objectives of Section 6(b)(5) of the Act⁴ in that it is designed to perfect the mechanisms of a free and open market and to protect investors and the public interest.

⁴ 15 U.S.C. 78f(b)(5).

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 organization 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, 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 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-CBOE-97-50 and should be submitted by November 13, 1997.

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

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 97-28307 Filed 10-24-97; 8:45 am]

BILLING CODE 8010-01-M

DEPARTMENT OF STATE

[Public Notice No. 2620]

Advisory Committee on International Law; Meeting Notice

A meeting of the Advisory Committee on International Law will take place on Monday, November 17, 1997, from 10:00 a.m. to approximately 4:00 p.m., as necessary, in Room 1406 of the United States Department of State, 2201 C Street, N.W., Washington, D.C. The meeting will be chaired by the Legal Adviser of the Department of State, David R. Andrews, and will be open to the public up to the capacity of the meeting room. The meeting will focus on developments involving the International Court of Justice and the International Law Commission, work on an International Criminal Court, the International Criminal Tribunals for the former Yugoslavia and Rwanda, and other current developments.

Entry to the building is controlled and will be facilitated by advance arrangements. Members of the public desiring access to the session should, by November 13, 1997, notify the Office of the Assistant Legal Adviser for United Nations Affairs (telephone (202) 647-2767) of their name, Social Security number, date of birth, professional affiliation, address and telephone number in order to arrange admittance. This includes both government and non-government attendees. All attendees must use the "C" Street entrance. One of the following valid IDs will be required for admittance: Any U.S. driver's license with photo, a passport, or a U.S. Government agency ID.

Dated: October 8, 1997.

John R. Crook,

Assistant Legal Adviser for United Nations Affairs; Executive Director, Advisory Committee of International Law.

[FR Doc. 97-28387 Filed 10-24-97; 8:45 am]

BILLING CODE 4710-08-M

DEPARTMENT OF TRANSPORTATION

Aviation Proceedings, Agreements Filed During the Week Ending October 17, 1997

The following Agreements were filed with the Department of Transportation under the provisions of 49 U.S.C. 412 and 414. Answers may be filed within 21 days of date of filing.

Docket Number: OST-97-3007

Date Filed: October 14, 1997

Parties: Members of the International Air Transport Association

Subject:

PTC12 Telex Mail Vote 892

Algeria-U.S. fares r1-5

Corrections—Telexes TE421/TE425

Intended effective date: November 1, 1997

Docket Number: OST-97-3008

Date Filed: October 14, 1997

Parties: Members of the International

Air Transport Association

Subject:

COMP Mail Vote 893—Reso 011a

Scandinavia-Gdansk/Poznan/Szczecin mileage sectors

Intended Effective Date: November 1, 1997

Docket Number: OST-97-3009

Date Filed: October 14, 1997

Parties: Members of the International

Air Transport Association

Subject:

PTC31 S/CIRC 0032 dated October 10, 1997

Circle Pacific Expedited Resos

002f (r1) & 073c (r2)

Tables—PTC31 S/CIRC Fares 0009

dated

October 10, 1997.

Intended effective date: expedited

November 15, 1997

Paulette V. Twine,

Documentary Services

[FR Doc. 97-28326 Filed 10-24-97; 8:45 am]

BILLING CODE 4910-62-P

DEPARTMENT OF TRANSPORTATION

Notice of Application for Certificates of Public Convenience and Necessity and Foreign Air Carrier Permits Filed Under Subpart Q During the Week Ending October 17, 1997

The following Applications for Certificates of Public Convenience and Necessity and Foreign Air Carrier Permits were filed under Subpart Q of the Department of Transportation's Procedural Regulations (See 14 CFR 302.1701 et. seq.). The due date for Answers, Conforming Applications, or Motions to Modify Scope are set forth below for each application. Following the Answer period DOT may process the application by expedited procedures. Such procedures may consist of the adoption of a show-cause order, a tentative order, or in appropriate cases a final order without further proceedings.

Docket Number: OST-97-3004.

Date Filed: October 14, 1997.

Due Date for Answers, Conforming Applications, or Motion to Modify Scope: November 11, 1997.

Description: Application of Prestige Airways, Inc., formerly NavCom Aviation II, Inc. d/b/a Prestige Airways,