

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b - 4A

Proposed Rule Change
by

New York Stock Exchange, Inc.

File No. SR-NYSE-77-3

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

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1. Text of Proposed Policy Change

- (a) The Board of Directors of the New York Stock Exchange, Inc. (the "Exchange") proposes to establish a requirement that each domestic company with common stock listed on the Exchange maintain an Audit Committee as a condition of listing and continued listing.

The following text will be ADDED in the New York Stock Exchange Constitution and Rules as described hereafter.

New York Stock Exchange Constitution and Rules
Page 4229

Par. 2495 H

Audit Committee Policy

Each domestic company with common stock listed on the Exchange, as a condition of listing and continued listing of its securities on the Exchange, shall establish no later than June 30, 1978 and maintain thereafter an Audit Committee comprised solely of directors independent of management and free from any relationship that, in the opinion of its Board of Directors, would interfere with the exercise of independent judgment as a committee member. Directors who are affiliates of the company or officers or employees of the company or its subsidiaries would not be qualified for Audit Committee membership.

A director who was formerly an officer of the company or any of its subsidiaries may qualify for membership even though he may be receiving pension or deferred compensation payments from the company if, in the opinion of the Board of Directors, such person will exercise independent judgment and will materially assist the function of the committee. However, a majority of the Audit Committee shall be directors who were not formerly officers of the company or any of its subsidiaries.

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Supplementary Material

In order to deal with the complex relationships that arise, the following guidelines are provided to assist Boards of Directors to observe the spirit of the policy in selecting members of the Audit Committee.

A director who has, or is a partner, officer or director of an organization that has, customary commercial, industrial, banking or underwriting relationships with the company which are carried on in the ordinary course of business on an arms-length basis may qualify for membership unless, in the opinion of the Board of Directors, such director is not independent of management or the relationship would interfere with the exercise of independent judgment as a committee member.

A director who, in addition to fulfilling the customary director's role, also provides additional services directly for the Board of Directors and is separately compensated therefor, would nonetheless qualify for membership on the Audit Committee. However, a director who, in addition to his director's role, also acts on a regular basis as an individual or representative of an organization serving as a professional advisor, legal counsel or consultant to management, would not qualify if, in the opinion of the Board of Directors, such relationship is material to the company, the organization represented or the director.

A director who represents or is a close relative of a person who would not qualify as a member of the Audit Committee in the light of the policy would likewise not qualify for the committee. However, if the director is a close relative of an employee who is not an executive officer or if there are valid countervailing reasons, the Board of Directors' decision as to eligibility shall govern.

While SEC Rule 405 may be helpful to the Board of Directors in determining whether a particular director is an "affiliate" or a close relative for purposes of this policy, it is not intended to be so technically applied as to go beyond the spirit of this policy.

Adopted by the Board of Directors on January 6, 1977.

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New York Stock Exchange, Constitution and Rules

18. Operations Contrary to Public Interest.-- If the company or its management shall engage in operations which, in the opinion of the Exchange, are contrary to the public interest.

- Present Material Ends -

- All New Material Follows -

19. Audit Committee. - When a company fails to maintain a qualified Audit Committee (effective 6.30.78).

- End of New Material -

2. Procedures of Self-Regulatory Organization

The Board of Directors of the Exchange approved the proposed policy change on January 6, 1977.

3. Purpose of Proposed Policy Change

The purpose of the proposed policy change is to enhance protection of investors and foster the public interest. Since the New York Stock Exchange maintains a close relationship with over 1500 of the nation's leading corporations, it proposes a policy change requiring that each domestic listed company, as a condition of listing and continued listing, establish and maintain an Audit Committee comprised solely of directors independent of management and free from any relationship that would interfere with the exercise of independent judgment as a committee member. Most companies have already established an Audit Committee that complies with the spirit of the policy. However, companies that have not done so or companies whose Audit Committees do not meet the requirements of the policy will be required to comply by not later than June 30, 1978.

4. Basis under the Act for Proposed Policy Change

- (a) (i), (ii), (iii), (iv), (v), (A), (B), (C) and (D), (vi), (vii), (viii) and (b) (i) through (vii) Not applicable.

(a), (v), (E)

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For the last two decades the New York Stock Exchange has required that at least two outside directors serve on newly listed corporations' boards of directors. It has also encouraged the formation of Audit Committees and strongly recommended this practice in its 1973 White Paper entitled "Recommendations and Comments on Financial Reporting to Shareholders and Related Matters".

We believe that the adoption of the policy regarding an Audit Committee would enhance the protection of investors.

The adoption of this policy is in the public interest since the Audit Committee would serve an important function in maintaining the credibility of the system of corporate self-regulation by providing a forum for discussion between independent auditors and non-management Directors of the company concerning questions arising during an audit, audit scope, etc. The formal adoption of this policy as a New York Stock Exchange Rule will underscore the essential need for corporate accountability and should not be disruptive to the vast majority of listed companies who already meet its basic requirement.

While the quality of service of a board of directors depends upon both its independent makeup and its judicious attention to corporate affairs, an Audit Committee, in particular, affords a vehicle for maintaining the highest standards of accountability by corporate management.

5. Comments Received from Members, Participants or Others on Proposed Policy Changes

Following preliminary staff study and survey, a proposal to establish an Audit Committee requirement for domestic listed companies with common stock listed on the Exchange was submitted to the Exchange Board of Directors on November 4, 1976. The Board approved the proposal in principle for exposure and comment.

The New York Stock Exchange requested the views of senior corporate executives of listed corporations and interested parties on the proposed requirement.

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Approximately 70 letters of comment were received.

Following is a summary of the responses:

SYNOPSIS OF CRITICAL COMMENTS RECEIVED

Comments Received on Audit Committee Policy Statement

- (1) The exclusion described for advisors and consultants is overly broad and should be narrowed; normal course business relationships should not disqualify a director; guidance should be provided to the Board of Directors to aid in determining if relationships might be a conflict of interest or otherwise impair a director's independence from management.

More than twenty-five comments were raised on this point. The revised Policy now provides guidance on these points and emphasizes that the listed company's Board of Directors is responsible for making determinations as to a director's qualifications where specific guidance is not provided.

- (2) Eliminate any reference to "Independent" directors.

The present Policy Statement eliminates reference to "Independent Directors" as a defined class.

- (3) SEC Rule 405 is too technical since all directors, under the Rule, might be considered to be affiliates and not qualify to serve on the Committee.

Five commentators objected to this reference. The Policy Statement responds to the point by indicating that Rule 405 is not intended to be so technically applied as to go beyond the spirit of the Policy.

Comments Not Included in the Policy:

- (1) The Exchange should not adopt any requirement in this regard.

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Ten commentators raised such objection.

- (2) Management directors should be allowed to serve on the Committee.

Six commentators supported this point.

- (3) The Exchange should define duties and responsibilities of the Committee.

Several comments were received in this regard. Considerable guidance is already available and it is likely that more will be forthcoming from both the accounting and the legal professions.

6. Burden on Competitor

None

7. Extension of Time Periods for Commission Action

The Exchange does not consent to an extension of the time periods specified in Section 19(b) (2) of the Act.

8. Basis for Policies Taking, or Being Put into, Effect Pursuant to Section 19(b) (3)

Not applicable

9. Exhibit

- (1) Form of Notice of the New York Stock Exchange Audit Committee Proposed Policy Change for the Federal Register.
- (2) Copies of all comments received in connection with consideration of this proposed policy change.

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SIGNATURES

Pursuant to the requirements of the Securities
Exchange Act of 1934, the New York Stock Exchange has
duly caused this filing to be signed on its behalf by
the undersigned thereunto duly authorized.

(New York Stock Exchange)

By: _____
James Buck, Secretary
