

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 19b-4A

Proposed Rule Change
by

New York Stock Exchange, Inc.

File No. SR-NYSE-76-25

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

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PROPOSED AMENDMENTS TO
REPORTING, RECORDKEEPING AND
AUDITING RULES

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1. Text of Proposed Amendments:

Attached as Exhibit I-A.

2. Description of N.Y.S.E. Action Re: Proposed Rules Changes

The Board of Directors of the New York Stock Exchange, at its March 4, 1976 meeting, approved the proposed rule amendments. No further Board or membership action is required to complete action on the proposal.

3. Purpose of the Proposed Rule Amendments

Under the uniform reporting system, which became effective January 1, 1976:

(1) The Financial and Operational Combined Uniform Single Report (FOCUS) replaced the Exchange's Joint Regulatory Report (JRR), various income and expense reports and an annual audited financial questionnaire, which was virtually identical to an SEC questionnaire.

(2) Specific audit procedures to be followed by independent public accountants in conducting annual audits previously spelled out in the SEC questionnaire were eliminated and are now left largely to the judgment of the accountant.

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(3) SEC recordkeeping amendments require retention of documents related to the new forms and extend to certain Exchange members not previously subject to its recordkeeping rules.

Accordingly, the proposed amendments would rescind Exchange requirements that duplicate or are inconsistent with the new SEC requirements and modify others to provide for more frequent reporting as the Exchange deems necessary for regulatory or surveillance purposes.

4. Basis Under the Act for the Adoption of the Proposed Amendments

The proposed rule amendments are based upon Section 17(a) of the Securities Exchange Act of 1934:

- (i) The proposed rule amendments provide that Exchange members make and keep records and furnish or disseminate reports as prescribed by the Commission.
- (ii) Inapplicable.
- (iii) Inapplicable.
- (iv) Inapplicable.
- (v) The proposed amendments will foster cooperation and coordination with persons engaged in

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regulating securities transactions in that it will result in uniform reporting of information by Exchange members and member organizations to the Exchange which will be comparable and in similar form to that received by the other regulators from their members.

(vi) Inapplicable.

(vii) Inapplicable.

5. Comments Received From Members, Participants or Others on Proposed Rule

No comment was solicited or received in connection with the subject proposal.

6. Burden on Competition - Inapplicable.

7. Extension of Time Periods for Commission Action

If the Commission takes action under Section 19(b)(3)(B) as requested in Item 8 below, the Exchange hereby consents to extension of time up to 90 days of the date of publication notice. If the Commission does not act under Section 19(b)(3)(B), the Exchange declines to waive any time period specified in Section 19(b)(2) of the Act.

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8. Basis of Rule Taking or Being Put Into Effect
 Pursuant to Rule 19(b)(3)

Amendments to SEC Rules 17a-4, 17a-5, 17a-10, 17a-11 and 17a-20 became effective on January 1, 1976 thereby creating differences between SEC rules and Exchange requirements. Since these differences have existed for more than two months, it is hereby requested that the Commission determine that the protection of investors and the safeguarding of securities and funds require that the proposed rule changes be summarily put into effect by the Commission pursuant to Section 19(b)(3)(B) of the Securities Exchange Act of 1934, as amended by the Securities Acts Amendments of 1975.

9. Exhibits

I. Form of Notice of Proposed Rule Change for Federal Register to be used if procedures under Section 19(b)(2) are followed.

I-A. Text of Proposed Amendments.

EXHIBIT I

SECURITIES AND EXCHANGE COMMISSION

Release No. 34-

File No. SR-NYSE-76- 25

SELF-REGULATORY ORGANIZATIONS

In the Matter of
 Proposed Rule Change by
 New York Stock Exchange, Inc.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15 U.S.C. 78s (b)(1), as amended by Pub. L. No. 94-29, 16 (June 4, 1975), notice is hereby given that on 1976, the above-mentioned self-regulatory organization filed with the Securities and Exchange Commission a proposed rule change as follows:

Statement of the Terms of Substance of the Proposed
 Rule Change

In order for the Exchange to comply with the Securities Acts Amendments of 1975, which, among other things, require Exchange members to make and keep records and to furnish or disseminate reports as prescribed by the Commission, the Board has approved proposed amendments to Rules 409, 416, 417, 418, 419 and 440 which will conform Exchange rules to those of the S.E.C.

The text of the rule amendments are attached as Exhibit I-A.

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The amendments as proposed will accomplish the following:

(a) Authorize the Exchange under Rule 416 to require financial and operational reports by members and member organizations within time periods as may be prescribed by the Exchange rather than each calendar month or quarter, as the case may be. This amendment would permit the Exchange to require reports within time frames set forth in a plan filed with the SEC but would also give the Exchange flexibility to require other reports as necessary.

(b) Rescind Rule 417 but retain some of its requirements by amendments to Rule 418. Specific audit procedures are eliminated.

(c) Revise Rule 418 to continue the Exchange authority to require an audit at anytime (formerly part of Rule 417) and specify that an annual audit is required of certain members and member organizations. The requirement that an agreement for annual audit be made with an independent public accountant and filed as prescribed by the Exchange is retained and two provisions from Rule 417 have been revised and added:

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were eliminated and are now left largely to the judgment of the accountant.

(3) SEC recordkeeping amendments require retention of documents related to the new forms and extend to certain Exchange members not previously subject to its recordkeeping rules.

Accordingly, the proposed amendments would rescind Exchange requirements that duplicate or are inconsistent with the new SEC requirements and modify others to provide for more frequent reporting as the Exchange deems necessary for regulatory or surveillance purposes.

Basis Under the Act for the Adoption of the Proposed Amendments

The proposed rule amendments are based upon Section 17(a) of the Securities Exchange Act of 1934:

- (i) the proposed rule amendments provide that Exchange members make and keep records and furnish or disseminate reports as prescribed by the Commission.
- (ii) Inapplicable
- (iii) Inapplicable
- (iv) Inapplicable

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were eliminated and are now left largely to the judgment of the accountant.

(3) SEC recordkeeping amendments require retention of documents related to the new forms and extend to certain Exchange members not previously subject to its recordkeeping rules.

Accordingly, the proposed amendments would rescind Exchange requirements that duplicate or are inconsistent with the new SEC requirements and modify others to provide for more frequent reporting as the Exchange deems necessary for regulatory or surveillance purposes.

Basis Under the Act for the Adoption of the Proposed Amendments

The proposed rule amendments are based upon Section 17(a) of the Securities Exchange Act of 1934:

- (i) The proposed rule amendments provide that Exchange members make and keep records and furnish or disseminate reports as prescribed by the Commission.
- (ii) Inapplicable
- (iii) Inapplicable
- (iv) Inapplicable

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(v) The proposed amendments will foster cooperation and coordination with persons engaged in regulating securities transactions in that it will result in uniform reporting of information by Exchange members and member organizations to the Exchange which will be comparable and in similar form to that received by the other regulators from their members.

(vi) Inapplicable

(vii) Inapplicable

Comments Received From Members, Participants or Others
 on Proposed Rule

No comments were solicited or received in connection with the subject proposals.

Burden on Competition - Inapplicable.

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 above-mentioned self-regulatory organization consents, the Commission will:

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- (A) by order approve such proposed rule change,
or
- (B) institute proceedings to determine whether
the proposed rule change should be dis-
approved.

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons desiring to make written submissions should file 6 copies thereof with the Secretary of the Commission, Securities and Exchange Commission, Washington, D. C. 20549. Copies of the filing with respect to the foregoing and all written submissions will be available for inspection in the Public Reference Room, 1100 L Street, N.W., Washington, D. C. Copies of such filing will also be available for inspection at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number referenced in the caption above and should be submitted on or before [number of days] after the date of this publication.

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

Secretary

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the self-regulatory organization has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized

New York Stock Exchange, Inc.
(Self-Regulatory Organization)

By: _____
 (Signature)*
James E. Buck
Secretary

* Print name and title of signer below signature.

PROPOSED RULE AMENDMENT

Deleted language [bracketed]

New language underscored.

Rule 416

Rule 416. (a) Each member and member organization shall file with the Exchange [:]

[a) At] at such times as may be designated in such form and within such time period as may be prescribed [an answer to] a financial [questionnaire;] and operational report.

[b)(1) as of the end of each calendar month as requested by the Exchange, each member organization shall file a report in the form prescribed by the Exchange of the Joint Regulatory Report of Broker/Dealers' Financial and Operational Condition, as the same may be revised from time to time;

(2) as of the end of any calendar month as requested by the Exchange, each individual member not associated with a member organization shall file a report in the form prescribed by the Exchange of the Regulatory Financial Report of Members, as the same may be revised from time to time;]

[c each report required to be filed by Section (b) of this Rule must be received at the

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Exchange or postmarked no later than the 17th business day following the end of the calendar month as to which such report relates;]

(b) [d] Unless a specific temporary extension of time [exemption from the provisions of this Rule 416 (c)] has been granted, there shall be imposed upon each member or member organization required to file reports pursuant to this Rule [416(b)], a fee of \$100 for each day that such report is not filed in the prescribed time [accordance with Section (c) of the Rule]; Requests for such [exemption] extension of time must be submitted to the Exchange [Regulation & Surveillance] at least three business days prior to the due date;

(c) [e] Any report filed pursuant to this Rule [416(b)] containing material inaccuracies shall, for purposes of this rule, be deemed not to have been filed until a corrected copy of the report has been resubmitted.

... Supplementary Material:

.10 Member organizations may be required to [shall] provide [answers and reports] financial and operational reports as required by Section[s] (a) of this Rule for affiliated and subsidiary organizations.

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[formed pursuant to Rules 322 and 324. Such answers and reports need not be provided for corporate affiliates formed pursuant to Rule 321 except in instances where the member organization has elected to receive capital value for the shares of stock in such affiliate in accordance with Rule 325(b)(4)(A)(ii) or where the affiliate has made a subordinated loan to the member organization.]

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RULE 417 - TO BE RESCINDED

Deleted language [bracketed]

[Audit]

[Rule 417. The Exchange may require any member or member organization to cause to be made as of the date of an answer to a financial questionnaire an audit, by an independent public accountant, of his or its accounts and assets, including securities held for safekeeping, in accordance with such regulations as shall be prescribed and to file a statement to the effect that such audit has been made and whether it is in accord with the answer to the questionnaire. Such statement shall, in the case of each member not a partner or a stockholder in a member organization, be signed by such member and, in the case of each member organization, shall be signed by each member and allied member thereof unless, for good cause shown, the signature of one or more of them is waived by the Exchange provided, however, that the signatures of only two members or allied members shall be required if the answer to such financial questionnaire is made available to all members and allied members of the organization. Such statement shall in all cases be attested by the auditors, and the original report of the audit signed by the auditors shall be retained as part of the books and records of the member or organization.]

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... Supplementary Material:

REGULATIONS PRESCRIBED FOR AUDIT UNDER AUTHORITY
OF RULE 417

(Except for the identifying initials (SEC) preceding Securities and Exchange Commission rules, and explanatory footnote (A), these regulations are identical with those prescribed by the Securities and Exchange Commission pursuant to SEC Rule 17a-5 and in its financial questionnaire, Form X-17A-5.)

.10 The audit shall be made in accordance with generally accepted auditing standards and shall include a review of the accounting system, the internal accounting control and procedures for safeguarding securities including appropriate tests thereof for the period since the prior examination date. The scope of such review and tests shall be sufficient to provide reasonable assurance that any material inadequacies existing at the date of the examination would be disclosed. The audit shall include all procedures necessary under the circumstances to substantiate the assets and liabilities and securities and commodities positions as of the date of the responses to the financial questionnaire and to permit the expression of an opinion by the independent public accountant as to the financial condition of the respondent at that date. Based upon

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such audit the accountant shall concurrently comment upon any material inadequacies found to exist in: (a) the accounting system: (b) the internal accounting control: (c) procedures for safeguarding securities and (d) the practices and procedures whose review is specified in Items 8. 9. 10 and 11 below and shall indicate any corrective action taken or proposed.

If the audit did not disclose any material inadequacies, the accountant shall so report.

The independent public accountant may perform audit procedures at any time which he may deem appropriate: however, if the procedures prescribed in Items 2, 3, 4 and 6(c) through (g), excluding Item 6 (e)(v), are performed at a date other than the audit date, then all such aforementioned procedures shall be performed as of the same date, which shall not be more than 190 days prior to the financial statement date.

The scope of the audit shall include the following procedures, but nothing herein shall be construed as limiting the audit or permitting the omission of any additional audit procedures which an independent public accountant would deem necessary under the circumstances. As part of his audit the independent public accountant shall:

- (1) Compare ledger accounts with the trial balances

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obtained from the general and private ledgers and prove the aggregates of subsidiary ledgers with their respective controlling accounts.

(2) Account for by physical examination and comparison with the books and records: all securities, including customers' fully paid and excess margin securities: material amounts of currency and tax stamps; warehouse receipts: and other assets on hand, in vault, in box or otherwise in physical possession. Control shall be maintained over such assets during the course of the physical examination and comparison.

(3) Verify securities in transfer and in transit between offices of respondent.

(4) Balance positions in all securities and spot and future commodities as shown by the books and records at the audit date.

(5) Reconcile balances shown by bank statements with cash accounts. After giving ample time for clearance of outstanding checks and transfers of funds, the independent public accountant shall obtain from depositaries bank statements and cancelled checks of the accounts and by appropriate audit procedures substantiate the reconciliation as of the audit date.

(6) Obtain written confirmations with respect to the following (see Note):

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- (a) Bank balances and other deposits.
- (b) Open contractual positions and deposits of funds with clearing corporations and associations.
- (c) Money borrowed and detail of collateral.
- (d) Accounts, securities, commodities and commitments carried for the respondent by others.
- (e) Details of: (i) Securities borrowed (ii) Securities loaned (iii) Securities failed to deliver (iv) Securities failed to receive (v) Contractual commitments (See General Instructions B. 11.)
- (f) Customers', partners', officers', directors', and respondent's accounts. Confirmation of these accounts may be in the form of a written acknowledgment of the accuracy of the statement of money balances, securities and/or commodities positions, and open contractual commitments (other than uncleared "regular way" purchases and sales of securities) accompanying the first request for confirmation mailed by the independent public accountant. Customers' accounts without balances, position or commitments, and accounts closed since the last prior audit shall be confirmed on a test basis.
- (g) Borrowings and accounts covered by "satisfactory subordination agreements." (The procedure to be performed at the preliminary audit

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date may be limited to obtaining written confirmation of borrowings of securities covered by subordination agreements and securities held as collateral to notes receivable related to subordinated borrowings. As of the audit date confirmation of both money balances and securities positions shall be obtained.)

(h) Guarantees in cases where required to protect accounts guaranteed as of audit date.

(i) All other accounts which in the opinion of the independent public accountant should be confirmed.

Note:

Compliance with requirements for obtaining written confirmation with respect to the above accounts shall be deemed to have been made if requests for confirmation have been mailed by the independent public accountant in an envelope bearing his own return address and second requests are similarly mailed to those not replying to the first requests, together with such auditing procedures as may be necessary; provided, however, that with respect to customers' accounts closed since the last prior audit the accountant may use either positive or negative confirmation requests; and it is further provided that with respect to periodic investment plans

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sponsored by member firms of a national securities exchange, whose members are exempted from (SEC) Rule 15c3-1 by paragraph (b)(2) thereof, the independent public accountant examining the financial statements of the originating member firm may omit direct written confirmation of such plan accounts with customers when, in his judgment, such procedures are not necessary, if (1) the originating member firm does not receive or hold securities belonging to such plan accounts and does not receive or hold funds for such accounts, except the initial payment which is promptly transmitted to the custodian; (2) the custodian is a member firm of such national securities exchange and files certified reports complying with (SEC) Rule 17a-5 in connection with which the customers' accounts are confirmed by an independent public accountant; and (3) funds and securities held by the custodian for each such customer's account are reconciled with the records of the originating member firm as of the date of the most recent audit of the custodian.

(7) Obtain a written statement from the proprietor, partner (if a partnership) or officer (if a corporation) as to the assets, liabilities, and accountabilities, contingent or otherwise, not recorded on the books of the respondent.

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(8) Verify the computation of the ratio of aggregate indebtedness to net capital at the audit date and review the procedures followed in making the periodic computations required under the provisions of (SEC) Rule 17a-3(a)(11). (See Note (A).)

(9) Review the practices and procedures employed for the making of the securities examinations, counts, verifications, comparisons and the recordation of differences required by (SEC) Rule 17a-13, and the methods employed in the resolution of the differences uncovered.

Notes:

(A) Compliance with audit requirement (8) will be met by verifying the computation of the ratio of aggregate indebtedness to net capital at the audit date in accordance with New York Stock Exchange, Inc. Rule 325 and review of procedures followed by member organizations in making their monthly computations under this rule.

(It should be noted that the provisions of (SEC) Rule 17a-5 require that the reports of certain brokers and dealers be audited by a certified public accountant or public accountant who shall be in fact independent. With respect to qualifications of accountants, accountant's certificate, opinions to be expressed, and exceptions, please refer to (SEC) Rule 17a-5).

(10) Review and test respondent's procedures

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relating to compliance with the requirement for the prompt payment for securities pursuant to Section 4(c) of Regulation T of the Board of Governors of the Federal Reserve System; and

(11) (a) Review the procedures followed in making the periodic computations and deposits required under the provisions of paragraph (e) and Exhibit A of (SEC) Rule 15c3-3.

(b) Review the procedures followed in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required under the provisions of (SEC) Rule 15c3-3.

(c) If respondent is exempt from (SEC) Rule 15c3-3, the independent public accountant shall ascertain that the conditions of the exemption were being complied with as of the examination date and that no facts came to his attention to indicate that the exemption had not been complied with during the period.

SPECIAL INSTRUCTIONS OF THE NEW YORK
STOCK EXCHANGE, INC.

.11 Any condition disclosed by the audit that would cause the capital or net worth of the member or member organization to be less than that prescribed by the Board of Directors shall be reported to the Exchange by the member or member organization

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immediately upon the ascertainment of such facts.

A written report of the independent public accountant shall be submitted to the member organization in which he shall attest that THE REQUIREMENTS OF THE AUDIT REGULATIONS HAVE BEEN OBSERVED IN THE CONDUCT OF THE AUDIT and such report shall also include, specifically, the following:

1. A comment that he has made a review of the member organization's accounting system, internal accounting control and procedures for safeguarding securities; including such tests thereof for the period since the prior examination date as he considered necessary in the circumstances; and

2. Comments relative to any material inadequacies found to exist in the accounting system, the internal accounting control, procedures for safeguarding securities, and the practices and procedures whose review is specified in Items 8, 9, 10 and 11 of the Exchange's audit requirements (see Rule 417) and shall indicate any corrective action taken or proposed.

3. If the audit did not disclose any material inadequacies, the report shall so state.

Within 60 days after the date of the audit, or such other period as the Exchange may individually require, a signed copy of such report shall be forwarded

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with the answers to the financial questionnaire by the independent public accountant in a sealed envelope addressed to the Exchange.

If preliminary audit procedures prescribed in items 2, 3, 4 and 6(c) through (g) excluding item 6(e)(v) are performed at a date prior to the audit date, and accountant's report on Part III of the financial questionnaire shall be forwarded with the answers to Part III by the independent public accountant in a sealed envelope addressed to the Exchange within 45 days after the date such preliminary audit examination commences, or such other period as the Exchange may individually require.

A copy of the answer to each financial questionnaire, report, all statements and reports and all working papers and memoranda covering the answer should be retained for at least three years. (Working papers, etc., must be made available for audit and review by a representative of the New York Stock Exchange, Inc. at the office of the respondent.)

.12 All statements and reports besides the answer to the financial questionnaire, which are required to be filed with the Securities and Exchange Commission under its Rule 17a-5 shall be simultaneously filed with the Exchange.]

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PROPOSED RULE AMENDMENT

[Required Annual] Audit

Rule 418. The Exchange may at anytime require any member or member organization to cause an audit to be made by an independent public accountant of his or its accounts in accordance with the requirements of Securities and Exchange Commission Rule 17a-5 and requirements prescribed by the Exchange.

(a) Each member organization and each individual member not associated with a member organization doing any business in securities with others than members and member organizations of a national securities exchange is required to have an annual audit of its [affairs] financial statements and reports conducted in accordance with the audit [regulations] requirements of the Exchange and of the applicable requirements of the Securities and Exchange Commission by independent public accountants. [and to have such accountants prepare an answer to the financial questionnaire of the Exchange based upon such audit. The audit date shall be determined in a manner mutually agreed upon by such member organization and the independent public accountant.]

... Supplementary Material:

Information Regarding Audits

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.10 [Each member organization subject to Rule 418, above shall select an independent public accountant to make such an audit at least once in each calendar year.]

Each member and member organization subject to this rule shall file with the Exchange by December 10th [as of January 1st] of each year, an agreement in a form prescribed by the Exchange dated no later than December 1st with an independent public accountant covering its annual audit during the following year. [If an accountant is replaced, the member organization shall also file with the Exchange copies of all written documents called for by SEC Rule 17a-5(f)(2).]

.12 Any member or member organization failing to file an audited financial and operational report under this rule in the prescribed time shall be subject to a \$200 penalty for each day of delayed filing.

.15 The annual financial statements and operational reports filed with the Exchange shall include a statement attesting that such financial statements and operational reports have been or will be made available to all members or allied members of the organization. Such statement shall be signed by two members or allied members of the organization.

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.20 A copy of each audited financial and operational report, all statements, schedules, other reports and all pertinent working papers and memoranda should be retained for at least three years. (Working papers, etc., must be made available for review by a representative of the New York Stock Exchange, Inc. at the office of the respondent or at the office of the independent public accountant.)

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RULE 419 - TO BE RESCINDED

Deleted language [bracketed]

[Financial Statements to Customers]

[Rule 419. (a) Customers, Stockholders and Capital Contributors. Each member organization, except one subject to supervision by State or Federal banking authorities, shall make available to any customer and to any partner, stockholder or subordinated lender of such organization at his request a statement of its financial condition, in the form prescribed by paragraph (c) of this Rule, as of the date of its most recent answer to the financial questionnaire of the Exchange or as of a date subsequent thereto.

Each statement of account sent to a customer pursuant to Rule 409 shall bear a legend as follows:

"A financial statement of this organization is available for your personal inspection at its offices, or a copy of it will be mailed upon your written request."

Within ninety-five days of the date of the annual surprise audit pursuant to Rule 417, each customer, partner, stockholder and subordinated lender shall be sent either:

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(1) A statement of financial condition of the organization based upon such audit, including the independent public accountant's report on the statement of financial condition of the organization, or if the audit is not completed.

(2) Appropriate notice disclosing the reason such financial statement has not yet been made available. A financial statement of the organization, based on such audit must be mailed to all customers, partners, stockholders and subordinated lenders as of the time when such statement becomes available for distribution.

(Note: The term "customer" as used in the above Rule means any person or party who either at the time of requesting such a financial statement or at the time of the distribution of such audited annual statement has an open account with the member organization.

Each member organization shall file with Regulation & Surveillance of the Exchange copies of interim quarterly and annual fiscal unaudited reports required to be publicly disclosed prior to such public disclosure, and, promptly after completion of the required annual surprise audit, an exact copy of the statement of financial condition, based upon such audit, which the

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firm intends to submit to its customers. However, copies of other unaudited statements of financial condition made available or distributed to customers at other times need not be filed with Regulation & Surveillance unless the organization has not been in existence a sufficient length of time to have had such a required annual audit.)

Each member organization shall report to the Exchange any material unsecured or partly secured loans, drawings in excess of share of profits, or other obligations owed to the member organization by (a) any person, including subordinated lenders having a capital interest in the member organization, (b) any employee of the member organization, or (c) any other corporation, firm or entity in which any member, allied member or employee of the member organization holds office or has a material financial interest. This report may show such obligations owed to the member organization by category without personal identification, except that personal identification shall be made in respect to any person having such obligations equal to five percent or more of the member organization's net worth (exclusive of subordinated borrowings).

(b) Public Disclosure

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Each member organization, except one subject to supervision by State or Federal banking authorities, which has outstanding any freely transferable securities shall unless all such freely transferable securities are held only by members, allied members or employees of the member organization, make prompt public disclosure of the following: (1) quarterly and annual audited or unaudited statements of financial condition and the annual statement of financial condition as of the date of the surprise audit required by Rule 417, all in the form prescribed in paragraph (c) of this Rule; (2) unaudited or audited (if an audit has been effected) quarterly statements of earnings and an annual statement of income and changes in stockholders' equity of such member corporation and subsidiaries required to be consolidated in accordance with generally accepted accounting principles (with appropriate disclosures in connection with such subsidiaries which are not consolidated) all in the form prescribed by paragraph (c) of this Rule; (3) any change in dividend policy; (4) any stock split or recapitalization; (5) any major management changes; (6) any merger or consolidation; (7) any acquisition or disposition of assets not directly related to the ordinary transaction of business as a broker or dealer in securities, representing an amount in excess of ten percent of the member organization's net worth (exclusive of subordinated

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borrowings) or stockholders' equity; and (8) any other timely significant fact. Each member organization, except one subject to supervision by State or Federal banking authorities, shall make immediate public disclosure (including releases to news media) of any non-compliance with the minimum net capital requirements of Rule 325 of the Exchange, which continues for fifteen days or more following the determination of the occurrence of such violation of said Rule.

For the purposes of items (1) and (2) in the above paragraph, "prompt public disclosure" shall mean release within 45 days of the close of an accounting period as of which unaudited financial statements are to be disclosed and within 95 days of the close of an accounting period as of which audited financial statements are to be disclosed. At a minimum, public disclosure also requires that a release should be given to Dow Jones & Company, Inc., Reuters Economic Services, Associated Press or United Press International, and to The New York Times, and to a newspaper(s) of general circulation in the city where the member organization is headquartered. A copy of the written release must be maintained for at least three years.

(c) Form of Financial Statements

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Statements of financial condition and related statements of earnings shall be reasonable, fair and clear presentations of the financial position of the member organization and the results of its operations for the period, prepared in conformity with generally accepted accounting principles and shall include in such financial statements and accompanying footnotes all necessary informative disclosures.

Each statement of financial condition with respect to each member corporation which has outstanding any freely transferable securities shall, unless such freely transferable securities are held only by members, allied members or employees of the member organization, be footnoted by a schedule of material unsecured or partly secured loans, drawings in excess of share of profits, or other obligations owed to the member organization by (a) any person, including subordinated lenders having a capital interest in the member organization, (b) any employee of the member organization, or (c) any other corporation, firm or entity in which any member, allied member or employee of the member organization holds office or has a material financial interest. This footnote may show such obligations owed to the member organization by category without personal identification,

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except that personal identification shall be made in respect to any person having such obligations equal to five percent or more of the member organization's net worth (exclusive of subordinated borrowings).

The quarterly and annual statements of earnings also shall disclose adequately:

- (a) major sources of income, expenses, Federal income tax and net earnings;
- (b) earnings per share appropriately expressed;
- (c) substantial items of unusual or non-recurrent nature.

Where continuity of the organization permits, the statement of financial condition and the quarterly and annual statements of earnings should be in comparative form commencing with the fourth quarter of the year 1971.

Disclosure of any financial statement based on an audit by independent public accountants must include the auditor's (opinion) report.

(See Par. 2325.30 for disclosure of subordinated borrowings in financial statements to customers.)

(d) Exceptions

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The Exchange may in unusual circumstances grant approval for exceptions from specific provisions of this Rule for a limited time, based upon written application by the member organization clearly setting forth the need and circumstances for the request.]

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PROPOSED AMENDMENT TO RULE 409New language underlined

Statements of Accounts to Customers

Rule 409. (a) Except with the permission of the Exchange, member organizations shall send to their customers statements of account showing security and money positions and entries at least quarterly to all accounts having an entry, money or security position during the preceding quarter.

(See also SEC Rule 15c3-2 concerning quarterly notices of free credit balances on statements.)

(b) No member organization shall address confirmations, statements or other communications to a non-member customer

(1) in care of a person holding power of attorney over the customer's account unless either (A) the customer has instructed the member organization in writing to send such confirmations, statements or other communications in care of such person, or (B) duplicate copies are sent to the customer at some other address designated in writing by him; or

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(2) at the address of any member, member organization, or in care of a partner, stockholder or employee of any member organization.

The Exchange may upon written request therefor waive these requirements.

(c) Customers' confirmations shall bear a notation or legend which will enable the customer to determine the amount of any odd-lot differential.

(d) Each customer's statement or a separate notice enclosed with such statement shall disclose the rate of interest and the amount of interest charge as shown on such statement.

(e) Each statement of account sent to a customer pursuant to this rule shall bear a legend as follows:

"A financial statement of this organization is available for your personal inspection at its offices, or a copy of it will be mailed upon your written request."

* * * *

PROPOSED AMENDMENT TO RULE 440

Books and Records

Rule 440. Every individual member and every member organization shall make and preserve [for at least three years such] books and records as the Exchange may prescribe and as prescribed by Regulations 240.17a-3 and 240.17a-4 of the Securities and Exchange Commission

... Supplementary Material:

[.10 Business transacted with members and member organizations. - An individual Exchange member or a member organization transacting business solely with members or member organizations shall make and preserve for at least three years records supporting all income and expense relating to securities and commodities and details of all transactions in securities and commodities for any account in which such member or organization has an interest.

Those records shall consist, at least, of the following:

- (1) Bank statements, cancelled checks and information as to source of deposits;
- (2) statements of account and confirmations received from others;
- (3) records reflecting assets and liabilities, income and expenses and proprietary interest; and

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(4) copies of all reports rendered to any regulatory body including national securities exchanges and state and federal authorities.

(See Rules 121 and 123 for records of orders to be kept by Exchange members. See Rule 410 for records of orders to be kept by member organizations.)

.20 Business transacted with others than members and member organizations. -- A member organization transacting business directly with others than members or member organizations shall make and preserve the records prescribed by Regulations §240.17a-3 and 240.17a-4 of the Securities and Exchange Commission.

(Note: S. E. C. requires retention of certain records for at least six years.)

Subparagraphs .21 Periodic Security Counts, Verifications, Comparisons, etc. and .25 Identification of Suspense Accounts and Assignment of Responsibility for General Ledger Accounts will be renumbered .10 and .20 respectively.