

COMMISSION APPROVES NYSE RULE TO REQUIRE INDEPENDENT AUDIT COMMITTEES

The Commission approved today a rule proposed by the New York Stock Exchange which will require all domestic companies with common stock listed on the NYSE to establish independent audit committees no later than June 30, 1978. The step is one that has long been favored by the Commission and was specifically suggested by Chairman Roderick M. Hills in May, 1976.

Chairman Hills said today that the NYSE rule change "constitutes very significant progress toward assuring proper accountability to shareholders by the management of publicly-held U.S. corporations.

"I am most gratified that the NYSE responded promptly and positively to this suggestion," Hills said. "This is a responsible step, taken in a most appropriate manner, and I think it will prove to be an effective and constructive response to a difficult problem."

The Commission first urged, as long ago as 1940, that corporations form audit committees composed of non-officer directors to participate in arranging corporate audits, and reiterated its support for the idea in 1972 and 1974.

On May 11, 1976, Chairman Hills wrote to William M. Batten, who had recently become Chairman of the NYSE, to express the Commission's view that independent audit committees are one important method of dealing with the problem of illegal or improper corporate payments. He suggested the NYSE "now could take the lead in this area by appropriately revising its listing requirements" in order to require establishment of independent audit committees.

The Commission, in approving the NYSE rule change today, pointed out that, "Exchange rules are, among other things, required to be designed to remove impediments to and perfect the mechanism of a free and open market, to prevent fraudulent and manipulative acts and practices and, in general, to protect investors and the public interest.

"In many cases of questionable corporate payments," the Commission declared, "there were elaborate efforts by corporate executives, including some directors, to conceal their activities from auditors, as well as from other company officials and members of the board, thereby undermining purposes of the Act with which exchanges (and other securities markets) are directly concerned. While independent audit committees will not eliminate all instances of abuse, their establishment can be an important step in a broader effort to remedy the problems of corporate accountability and disclosure that have been uncovered."

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