

MEMO# 11391

November 5, 1999

INSTITUTE COMMENTS ON NYSE'S AND AMEX'S PROPOSALS TO IMPROVE EFFECTIVENESS OF AUDIT COMMITTEES

* See Memorandum to Accounting/Treasurers Committee No. 36-99, Closed-End Investment Company Committee No. 36-99, and SEC Rules Committee No. 81-99, dated October 20, 1999. [11391] November 5, 1999 TO: ACCOUNTING/TREASURERS COMMITTEE No. 42-99 CLOSED-END INVESTMENT COMPANY COMMITTEE No. 42-99 SEC RULES COMMITTEE No. 93-99 RE: INSTITUTE COMMENTS ON NYSE'S AND AMEX'S PROPOSALS TO IMPROVE EFFECTIVENESS OF AUDIT COMMITTEES

The New York Stock Exchange (NYSE) and the American Stock Exchange (Amex) recently proposed rules relating to their audit committee requirements for listed companies.* These proposals were in response to recommendations of the NYSE/NASD Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees issued earlier this year. The Institute submitted a comment letter on the rule proposals, which supports the objective of the proposals + to improve the effectiveness of corporate audit committees by enhanced oversight of the financial reporting process by directors + but opposes the application of the rules to closed-end companies listed on the NYSE or on the Amex for several reasons. First, the Institute points out that closed-end funds are structured and regulated very differently from public operating companies; therefore, the abuses the regulations are intended to address do not exist. Second, closed-end funds are extensively regulated under the Investment Company Act of 1940. Third, the Securities and Exchange Commission recently proposed rules to enhance the effectiveness of independent directors of investment companies, including a proposal specifically focusing on audit committees. The Institute argues that, if closed-end funds are subject to any audit committee requirements, this rule proposal would be more appropriate because it is specifically tailored to investment companies. A copy of the Institute's comment letter is attached. Amy B.R. Lancellotta Senior Counsel Attachment