

after January 15, 2004, or October 31, 2004, to cure any defects that would be the basis for a prohibition from continued listing.

(e) An issuer must notify the Exchange promptly after an executive officer or the issuer becomes aware of any material noncompliance by the issuer with the requirements of this subsection 1.4 or Rule 10A-3 of the Act.

(f) In connection with a review of standards designed to ensure independence and strengthen corporate governance practices, the Exchange intends in the near future to adopt additional listing policies and requirements pertaining to issuer corporate governance, including standards for independence of board directors, independence and responsibilities of nominating, compensation and other board committees, codes of conduct, and shareholder approval of equity compensation plans. These additional policies and requirements will be reflected within the Exchange Rules.

Section 2. Unlisted Trading Privileges

[No application shall be made to the Securities and Exchange Commission for the extension of unlisted trading privileges with respect to any security unless the issuer thereof shall meet the requirements for listing set forth in Section 1.3. of this Article IV. In the event that an issuer whose security has been the subject of a grant of unlisted trading privileges to the Exchange ceases to meet the requirements for listing set forth in Section 1.3. of this Article IV, the Exchange shall terminate such unlisted trading.] Notwithstanding the [foregoing]requirements for listing set forth in Section 1.3 of this Article IV, the Exchange may seek and continue unlisted trading privileges on any security as to which unlisted trading privileges have been granted pursuant to Section 12(f) of the Act[for which the primary trading market is the New York Stock Exchange or the American Stock Exchange].

Section 3 Delisting of Securities

3.1. Suspension and/or Delisting by Exchange

(a) The Board [of Trustees]may suspend dealings in any issue admitted to trading on the Exchange.

(b) Whenever the Board [of Trustees] determines that it no longer is appropriate for a security to continue to be traded on the Exchange, it may institute proceedings to delist such security. Any issuer or any other person aggrieved by such action may seek relief pursuant to the Exchange[']s r]Rules governing adverse action.

(c) The securities of an issuer will be subject to suspension and/or withdrawal from listing and registration as a listed issue if any of the following conditions are found to exist:

(1) [F]ailure to comply with the listing standards and agreements[.]; or

(2) [S]ustained loss so that financial condition becomes so impaired that it is questionable to the Exchange whether the company can continue operations and/or meet its obligations as they mature.

Notwithstanding the foregoing, the Board [of Trustees]may determine that the suspension or delisting of an issue is necessary for the protection of investors and the public interest.

3.2. Delisting by Issuer

A security, which in the opinion of the Board [of Trustees of the Exchange]is eligible for continued listing, may be removed from [the]listing upon the request or application of the issuer provided that the issuer submits a certified copy of a resolution adopted by the [B]oard of [D]irectors of the issuer authorizing withdrawal from listing and registration and a statement setting forth in detail the reasons for the proposed withdrawal and the facts in support thereof.

The issuer may be required to submit the proposed withdrawal to the security holders for their vote at a meeting for which proxies are solicited provided the stock is not also listed on another national securities [E]xchange registered under Section 6 of the Act having similar requirements or on a facility of a national securities association registered under Section 15A of the Act having similar requirements.

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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 Exchange 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 Exchange 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 Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Commission approved Rule 10A-3 under the Act,⁴ with an effective date of April 25, 2003.⁵ Rule 10A-3 under the Act⁶ pertains to listing standards relating to audit committees and, among other things, requires each of the national securities exchanges and associations to adopt rules prohibiting the initial or continued listing of any security of an issuer that is not in compliance with the requirements of Rule 10A-3. Through this instant rule proposal, CSE seeks to incorporate the necessary rule language pertaining to Rule 10A-3 into its listing standards. In addition, CSE seeks to incorporate additional rule language pertaining to audit committee requirements for listed issuers in order to conform to recommendations made by the Blue Ribbon Committee on Improving Effectiveness of Corporate Audit Committees and rule changes adopted by other self-regulatory organizations. Finally, the Exchange is proposing to make certain other changes to Article IV of its By-Laws that are described below. CSE represents that these changes, in part, make the language of the various provisions uniform and consistent with the Exchange rules and practices.

In part, the proposed rule change specifies requirements for audit committees. First, proposed Subsection 1.4 of Article IV would require that, in order to qualify its securities for listing on the Exchange, an issuer must have an audit committee that complies with the requirements of Rule 10A-3 of the Act.⁷ Proposed Subsection 1.4 goes on to specify that each audit committee must also consist of at least three members of the listed company's board of directors, each of whom must meet certain financial literacy requirements, and at least one of whom must possess certain accounting or related financial management expertise. CSE states that a board would be permitted to presume that a person who satisfies the definition of audit committee financial expert set out in Item 401(h) of Regulation S-K has accounting or related financial management expertise.

In addition to these committee member qualification requirements, the

⁴ 17 CFR 240.10A-3.

⁵ See Securities Act Release No. 8220, Securities Exchange Act Release No. 47654, and Investment Company Act Release No. 26001 (April 9, 2003), 68 FR 18788 (April 16, 2003).

⁶ 17 CFR 240.10A-3.

⁷ 17 CFR 240.10A-3.