

fee increases are necessary to ensure that revenue is adequate to satisfy increasing costs for operations, technology, regulation and infrastructure.

The Exchange has long prided itself on having system capacity sufficient to handle a far greater volume of trading than is normally experienced in the market. As trading volume has increased exponentially in recent years the Exchange has similarly expanded capacity to keep pace. Particularly in the last several decades, the Exchange has also focused on supplying trading technology to the Floor of the Exchange to increase the speed and efficiency of trading and to enhance the reliability and efficiency of Exchange oversight and surveillance as well.

Traditionally, the Exchange has funded these efforts largely from its general revenues. At the same time, the Exchange has recognized in recent years that it is appropriate to cap the transaction charge exposure of the member organizations with a public business, for the benefit not only of those firms but also their investor customers. As noted herein transaction charges will remain capped although at a higher level, and transactions charges will be assessed on principal trades as well. However, the Exchange has also determined that it is appropriate to better align Exchange revenues with the value provided by the Exchange, particularly with respect to the technology provided by the Exchange for operations on its trading floor. Accordingly, the Exchange is proposing specific fees for certain of the Floor-related technology that is provided by the Exchange. In this way greater revenue can be obtained from the members and member organizations that directly use this technology in their business.

The NYSE is also proposing changes to the fees applicable to members and member organizations subscribing to the Exchange's Automated Bond System (ABS). These changes will be applied as subscribers switch from dedicated terminals to a web-based browser, as more fully explained below.

While all the fee changes proposed herein will impact members and member organizations, it should be noted that the Exchange is also increasing fees applicable to listed companies. Such listed company fee increases have been filed in a separate rule proposal.⁵

What follows is a brief discussion of the proposed fees:

Increased Fees

Transaction Charges

In 1996, the Exchange established a cap on transaction charges of \$400,000 per month per member organization. At that time, the intent was to increase the cap each year in proportion to increased trading volume. Had the Exchange invoked the indexing provision each year since 1996, the cap for 2002 would have been approximately \$1.4 million. For competitive reasons, the Exchange elected not to implement any increase until 2001, when the cap was increased to \$500,000, the current fee. No increase was made for 2002, even though volume increased over 20% from 2001. The Exchange proposes to increase this cap to \$600,000 per month per member organization.

Branch Offices

The Exchange is proposing to increase initial fees and annual maintenance fees applicable to branch offices. Presently, member organizations are charged an initial fee at the time that they open a new branch office, as well as an annual maintenance fee that is charged for each of their open branch offices. A three-tiered fee structure is used to assess these fees. As a member organization's branch network grows, they move up through the tiers of the fee structure, paying a stepped-down rate based on their applicable level. This structure provides an incremental reduction in fees for those branch offices that exceed the level of each breakpoint. The current three-tier structure is outlined below:

Number of branch offices	Initial branch opening fee (charged per office)	Annual maintenance fee (charged per office)
First 250 branch offices	\$250	\$250
Next 250 branch offices	150	150
Over 500 branch offices	125	125

The Exchange proposes amending the existing fee structure as follows:

Number of branch offices	Initial branch opening fee (charged per office)	Annual maintenance fee (charged per office)
First 1,000 branch offices	\$350	\$350
Next 2,000 branch offices	250	250

Number of branch offices	Initial branch opening fee (charged per office)	Annual maintenance fee (charged per office)
Over 3,000 branch offices	225	225

New Fees

Principal Transactions

The Exchange's current transaction fee schedule is applied only to trades executed by members and member organizations on an agency basis. The Exchange is proposing to subject principal transactions, by members and member organizations other than those acting as specialists, to transaction fees using the same schedule as is applied to agency transactions. The transaction charges for principal transactions will also be included within the proposed overall transaction fee cap of \$600,000 per month per member organization. The Exchange will not apply this new transaction fee to member principal trading that is effected in conjunction with facilitating a customer's order of at least 10,000 shares. "Facilitating" refers to taking the other side of a customer's order, or acquiring/liquidating inventory to buy from/sell to a customer at an agreed-upon price.

Trading Floor Technology

The Exchange proposes to introduce new fees for trading floor technology.

Brokers

In 1993, the Exchange commenced a program of providing technology services to its floor broker members as part of its Integrated Technology Plan package. Since that time, the Exchange has invested over \$150 million in broker-related technology services, including the Broker Booth Support System (BBSS), the Wireless Data System (WDS) and companion applications, used on the floor of the NYSE by brokers at a nominal fee or free of charge.

The Exchange is establishing a fee structure for the broker-related services based on a flexible menu of services to which users can subscribe. These broker services are provided not only by the Exchange, but are also available from competing order management vendors and, in some cases, by member firms' own technology groups. In establishing a menu of fees and applicable services, brokers are free to choose which services they want to subscribe to from the Exchange. The fees will be phased in over a three-year period. The fees noted below are the full fees that will be

⁵ See Securities Exchange Act Release No. 46960 (December 6, 2002), 67 FR 77124 (December 16, 2002).