**MEMO# 21556**

September 4, 2007

# NYSE Revises System of Specialist Firms' Compensation

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 50-07 RE: NYSE REVISES SYSTEM OF SPECIALIST FIRMS’ COMPENSATION

The New York Stock Exchange filed with the Securities and Exchange Commission a proposal to change its system of payments to specialist firms by aligning specialist firms’ compensation with their performance. [1] The proposal became effective upon filing.

The proposal will replace the current revenue sharing program with a system that provides variable payments to specialist firms for providing liquidity to the NYSE – the “Liquidity Provision Payment.” Specifically, compensation will be based on two revenue sources in NYSE-listed securities (excluding exchange traded funds): (1) the NYSE’s share of market data revenue derived from its quoting share; and (2) the NYSE’s transaction fee revenue. For the first source of payment, in effect, the NYSE will pass through to the specialist firm for each security all of the quoting share revenue associated with that security as set forth in Regulation NMS. [2] For the second source of payment, the NYSE will create a payment pool consisting of 25 percent of its NYSE-listed stock transaction revenue on matched volume (excluding crossing services) in executed transactions. The NYSE will allocate a portion of the pool to each specialist firm based on the firm’s trading performance each month as measured by certain criteria. A specialist firm’s allocation will increase if its performance as a liquidity provider improves relative to other specialist firms.

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**endnotes**

[1] SEC Release No. 34-56337 (August 29, 2007).  The proposal can be found on the SEC's website at http://www.sec.gov/rules/sro/nyse/2007/34-56337.pdf.  Comments on the proposal are due 21 days after the proposal is published in the Federal Register.

[2] See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005).

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