September 9, 2003

The Honorable William H. Donaldson
Chairman
U.S. Securities and Exchange Commission
Washington, DC 20549

Dear Chairman Donaldson:

By your September 2, 2003 letter to me, you expressed several concerns about the approval by the Exchange's Board of Directors of a new Employment Agreement for Mr. Richard A. Grasso, Chairman and Chief Executive Officer, that distributed to him certain vested and accrued compensation. Your letter also set out nine sets of questions and document requests and asked that I respond by today. I have taken your questions in turn and answered each of them, and I have provided supporting documentation as Exhibits.

Before turning to the response to your questions, allow me to clarify that the 2003 Employment Agreement, which reflects Mr. Grasso's commitment to remain Chairman and CEO of the Exchange to May 31, 2007, provides no new compensation to Mr. Grasso. As you know, it does provide for the payment to him of $139.5 million that he earned pursuant to benefit plans and deferral programs prior to 2003 and which had been accrued. The 2003 Employment Agreement also continues his annual salary of $1.4 million that has been in effect since 1995 and contemplates (but does not guarantee) a target bonus of at least $1 million per year. In addition, it terminated Mr. Grasso's future awards in the benefit plans and deferral programs in which he previously participated.

Under his 1999 Employment Agreement, Mr. Grasso was also entitled to approximately $48 million in future payments, $20 million of which are vested benefits. Of the $48 million, $15.5 million has already been accrued. The 2003 Employment Agreement provided for these payments to be made during the years 2003-2007. However, Mr. Grasso has informed the Board of Directors that he has determined to forego receipt of these future payments. The 2003 Employment Agreement will be revised accordingly.

1. Enclosed as Exhibit 1 are copies of the minutes of the Exchange's Human Resources and Compensation Committee (the Compensation Committee) meetings where Mr. Grasso's new Employment Agreement were discussed and approved, including "benefits payouts." It is the practice of the Exchange to not take minutes at Executive Sessions of the non-management Directors. However, enclosed as Exhibit 2 are Speaking Points of H. Carl McCall (I chaired the meeting) and handouts that were distributed to Directors at the meeting. Enclosed as Exhibit 3 are copies of the minutes of the Compensation Committee and the Board where prior Employment

Agreements and Amendments to Mr. Grasso's Agreement were discussed and approved since he became Chairman and Chief Executive Officer, and, in Exhibit 4 a copy of Mr. Grasso's 1999 Employment Agreement and amendments. In Exhibit 5 are copies of consultant reports and other documents that were considered when making those decisions. Both the Compensation Committee as it was constituted prior to June 2003 and the Compensation Committee constituted after June 2003 discussed and approved the terms of Mr. Grasso's new Employment Agreement. The Compensation Committees had the benefit of advice from Hewitt Associates (the Compensation Committee's compensation consultant), Mercer Human Resources Consulting (the Compensation Committee's benefits consultant), and Vedder Price (an independent consultant that had never done business with the Exchange that the Compensation Committee engaged for a completely independent assessment).

2. The role of the Compensation Committee is spelled out in its Charter. Enclosed as Exhibit 6 are the Charters under which the Compensation Committee has operated since 1995 when Mr. Grasso became Chairman and CEO. Enclosed as Exhibit 7 are the members of the Board of Directors who have served on the Compensation Committee since 1995 and their years of service. No other committee of the Board deals with Mr. Grasso's compensation or terms of employment. Based on considerations of constituent representation, on Director competencies, availability and preferences, and on an equitable distribution of workload of all committees, the Board makes all committee assignments. Until June 2003, the Chairman recommended assignments. In June 2003, as recommended by the Special Committee on NYSE Governance, a Standing Governance Committee consisting of three non-industry Directors and the two Vice Chairmen was appointed to, among other things, review and concur with committee membership recommendations made by the Chairman.

   The Compensation Committee's composition, until June 2003, included both industry and non-industry Directors, traditionally including the two Vice Chairmen of the Board. In June 2003, as recommended by the Special Committee on NYSE Governance, the composition of the Compensation Committee was changed to include only non-industry Directors.

   As you will see from the minutes of the Compensation Committee, the Committee felt that it was important to retain Mr. Grasso as Chairman and CEO of the Exchange for a period that extended beyond 2005 when his 1999 Employment Agreement would have expired.

   It has been the goal of the Compensation Committee for several years to design compensation programs that attract and retain superior "world class" executives. It has also been the Compensation Committee's practice to review, from time to time, the terms and conditions of Mr. Grasso's employment, and after this review engage Mr. Grasso in discussions regarding new agreements.

   Exhibit 8 shows, to the extent the Exchange is aware, the various business and financial relationships with members of the Compensation Committee, and philanthropic contributions that the Exchange or its Foundation has made to organizations with which members of the Compensation Committee are affiliated.

We are canvassing present and past members of the Compensation Committee to assure that we have a complete record. When we complete our research of relationships, we will supplement Exhibit 8 as necessary.

3. Shown below is a schedule of the Compensation, Deferred Compensation, Savings and Retirement Plans indicating participation and, where appropriate, contractual exceptions to the terms of the Plans. In Exhibit 9 are minutes of the Compensation Committee and Board of Directors meetings where these Plans were discussed or approved.

Plan	Participants	Description
Salary	All Employees	Annual base salary. Salaries are reviewed each year. No executive at or above the level of Senior Vice President has received a merit increase since 2001. No employee at or above the level of Director has received a merit increase in 2003. Approximately 275 NYSE employees are represented by the Office and Professional Employees International Union and their pay is determined by a negotiated collective bargaining agreement. Pay levels below the level of Senior Vice President are reviewed each year and approved by the Compensation Committee. The Committee is supported in this review by its outside consultant, Hewitt Associates. The basis for establishing salary ranges and merit increase budgets is a review of several published salary surveys and Hewitt's view of the "market." Pay levels for Senior Vice Presidents and above are reviewed each year and approved by the Compensation Committee. The basis for establishing salaries for this group is a comparator group of financial firms that has been selected by the Compensation Committee and is shown as Exhibit 10. Total compensation, including all applicable compensation programs, for executives at the comparator companies is analyzed and then discounted by 10% for Mr. Grasso and by 30% for other executives, to establish a starting point for discussions about total compensation including salary, ICP and, where appropriate, CAP (see descriptions below).

Incentive Compensation Plan (ICP)	All Employees Except Listing Sales and Client Service	The NYSE Incentive Compensation Plan was established in the 1980s. At first limited to Senior Executives, participation in the Plan has, over the years, been expanded so that, today, all employees participate. Plan Awards have always been a function of performance against goals that are established annually. Some portion of the award had been discretionary for employees at the Director level and above to enable recognition of individual performance. In 1999, the Plan was redesigned so the Plan is able to recognize individual performance for all employees. Today, awards are granted based on Exchange results, Division results and Individual Performance measured against predetermined targets that are approved by the Compensation Committee each year. Target Award levels are based on Salary Grades. Incentive Compensation Plan Awards for Senior Executives, including Mr. Grasso, and the President(s) are determined each year by the Board after a recommendation from the Compensation Committee regarding total compensation with support from the Committee's outside consultant, Hewitt Associates. The Compensation Committee approves the ICP Award for Group Executive Vice Presidents and the General Counsel with support from Hewitt Associates and also determines the appropriate level of ICP Awards (although not the specific amounts) for Executive Vice Presidents and Senior Vice Presidents, again with support from Hewitt Associates.
Long Term Incentive Plan (LTIP) (Discontinued)	Senior Executives Grade 35 (Senior Vice President) and Above	Each year, three-year Exchange-wide goals and target awards based on organization level were established (a cycle). At the end of each cycle, an award was granted based upon performance against the goals.

Capital Accumulation Plan (CAP)	Specific Senior Executives	Each year, beginning in 1998, participating executives are credited with a percentage of his or her ICP Award (in the past, LTIP was included). Award levels are designated by individual, and are 15%, 25% or 50% of the ICP Award. Mr. Grasso participates at the 50% level. The award is treated as a book entry earning 8%/year (a rate established in 1998) until it is vested. Once vested, the awards are transferred to a Rabbi Trust where the rate of return is based on the individual executive's selection of investment vehicles. Executives may currently choose from nine mutual funds as investment vehicles. The vesting schedule is shown below:

Age	% Vested
<55	0
55	10
56	20
57	30
58	50
59	70
60	100

Retirement Plan	All Employees	The NYSE Retirement Plan is an ERISA qualified defined benefit plan that accrues annual benefits, based on length of participation and base salary, and has an objective to provide long service participants (defined as 35 years or longer) with a pension benefit, including Social Security, of between 50 and 60% of the participant's five highest paid years. The benefit, which is capped by IRS regulation, is payable as an annuity following retirement.
Savings Plan	All Employees	The NYSE Savings Plan is an ERISA qualified 401(k) defined contribution Plan. Employees may defer up to 6% in pre- or after-tax contributions that are matched, dollar for dollar, by the Exchange. Participants may defer greater amounts that are not matched. There are presently 13 investment vehicles to which participants may allocate their savings (12 mutual funds and one GIC fund). There are loan and withdrawal provisions that participants may take advantage of. The level of benefit is capped by IRS regulation.

Supplemental Executive Retirement Plan (SERP)	All employees earning $166,360 or more (indexed)	The SERP is a non-qualified defined benefit retirement plan that is designed to supplement the qualified pension plan. The annual pension payable from the two plans and Social Security is a percentage of an employee's best consecutive three years of compensation within his or her final 10 years of service. The percentage of compensation paid as a benefit is 25% after 10 years' service, 45% after 20 years, and 60% after 30 years. The percentage increases 1% with each additional year of service. If a participant leaves the Exchange before age 55, the benefit is forfeited. The benefit is reduced 2%/year for each year before age 60 the participant retires. Benefits are payable as a monthly annuity, annual installments or in a lump sum. Mr. Grasso does not participate in SERP. However, all his Employment Agreements, and the Agreements of those who preceded him as Chairman and CEO, provide a retirement benefit that is calculated using the same formula as the SERP with a few modifications. 1. He is credited with an additional four years of service. 2. The interest rate that is used to convert his pension to a lump sum cannot exceed 4%. 3. For 2001 and later, the SERP calculation recognizes only 85% of the ICP Award. For other Senior Executives, the SERP recognizes 100% of ICP. This modification was made so that Mr. Grasso would not benefit from the elimination of LTIP. 4. When the 1999 Employment Agreement became effective, Mr. Grasso's earned SERP benefit ($29,928,062) was credited to his SESP account. The SERP benefit that is in the 1999 Employment Agreement (and in the 2003 Employment Agreement), is offset by approximately $42,000,000 representing amounts that have been previously paid to him or transferred to his SESP Account (see description below), plus the amount that was attributable to changes in mortality tables in 1999 (Mr. Grasso did not wish to benefit from this change).

Supplemental Executive Savings Plan (SESP)	Employees who exceed IRS established maximums for 401(k) Plans, i.e. $200,000 salary or $40,000 total contributions (including NYSE match)	The SESP is designed to continue the benefits available through the NYSE Savings Plan. The first 6% of contributions, which must be made pre-tax, are matched dollar for dollar. Loans are not available. Funds are invested in a Rabbi Trust and there are nine investment vehicles available.
Salary Deferral Plans	Senior Executives Grade 35 (Senior Vice President) and Above	The qualified Savings Plan and SESP allow an eligible employee to defer a portion of his or her base salary. The ICP Deferral Plan (and previously the LTIP Deferral Plan) allows eligible employees to defer all or part of his or her award. There is no matching contribution. Deferrals are invested in a Rabbi Trust and there are nine investment vehicles available.

4. Shown below is information regarding the total compensation for Mr. Grasso since 1995 when he became Chairman and CEO. Mr. Grasso's compensation has been made up of Salary, Annual Incentive Compensation Plan Awards (ICP), Long Term Incentive Compensation Plan Awards (LTIP), and Capital Accumulation Plan Awards (CAP). Salary is established by Mr. Grasso's Employment Agreement. Mr. Grasso has an ICP Award Target of $1,000,000, that is not guaranteed, that is also established by the Employment Agreement. The LTIP has been discontinued.

	Salary	ICP	LTIP	CAP	Total
1995	$1,264,583	$ 900,000	-	-	$2,164,583
1996	1,400,000	1,600,000	-	-	3,000,000
1997	1,400,000	3,800,000	-	-	5,200,000
1998	1,400,000	4,204,000	396,000	-	6,000,000
1999	1,400,000	5,652,000	948,000	3,300,000	11,300,000
2000	1,400,000	12,519,000	1,081,000	6,800,000	21,800,000
2001	1,400,000	16,100,000	-	8,050,000	25,550,000
2002	1,400,000	7,066,666	-	3,533,333	12,000,000

1995 reflects five months as President and Executive Vice Chairman.

For 2000 the Board awarded Mr. Grasso a Special Payment of $5,000,000 that vests in February 2006 and is not SERP eligible compensation since the Board decided to separate the payment from the ICP Award.

For 2001 the Board awarded Mr. Grasso a Special Payment of $5,000,000 that was placed in his SESP Account and was not SERP eligible compensation, again, since the Board decided to separate the payment from the ICP Award.

As described above, all NYSE employees participate in the Incentive Compensation Plan. Exchange-wide Awards are based on (1) performance against predetermined goals and (2) an evaluation of the organization's performance in any given year that is made by the Chairman and CEO, and approved by the Compensation Committee and the full Board. (In recent years, division performance has also become a factor.) By way of example, if the Exchange-wide award was 130 in a particular year, the Exchange, as an organization, would have performed at 130% of its target of 100%. As a result, employees would have received 130% of their Target Award before adjustments for individual performance were applied. Exchange-wide performance against a Target of 100% is shown below for the 1995-2000 period.

Year	Award
1995	130
1996	135
1997	145
1998	130
1999	120
2000	155
2001	155
2002	115

These payments were accrued and reported as expense in the year they were earned. The $5,000,000 Award for 2000 earns 8%/year until it vests in February 2006. This Award has been accrued and reported as expense. Earnings are accrued and reported as expense each year. SERP benefits are accrued and reported as expense over the life of the Employment Agreement. CAP Awards are accrued and the expense is reported in the year awards are earned. Earnings on the unvested portion of awards are accrued and the expense is reported each year. The vested portion of the awards are transferred to a Rabbi Trust. There are nine investment vehicles available in the Trust. Once transferred, gains/losses are reflected in the value of the Trust's assets.

Long Term Incentive Plan awards were accrued and reported as expense in the year they were earned.

To put these awards in context, allow me to briefly note the accomplishments for the NYSE in 2000 and 2001 when employees at the Exchange, including Mr. Grasso, received significant ICP Awards.

In 2000, the Exchange handled record volume, launched Network NYSE consistent with the report of the Special Committee on Market Structure, Governance and Ownership (NYSE Direct+, NYSE MarketTrac, eBroker, Institutional Express), led the industry to convert from fractions to decimals, opened a new 8,000 square foot trading facility, doubled capacity to 2000 messages/second, introduced the Common Access Point high speed external network, established Online Comparison, deployed the FIXX communication protocol, listed 122 companies, launched the S&P Global Index and an ETF based on the Index, conducted several Special Examinations including Decimal Readiness, Customer Margin and Day Traders, referred 10 Insider Trading cases to the SEC that resulted in enforcement actions and brought a record number of Enforcement cases including several that were "message cases."

In 2001, again the Exchange handled unprecedented volume, enhanced Network NYSE, significantly increased Trading Floor productivity through the Broker Booth Support System and Broker Hand Held Devices, implemented the Front-End Systemic Capture system, and Intra-day Comparison, listed 144 new companies, introduced non-listed trading in ETFs, participated in Anti-Money Laundering Sweeps, brought a record number of Enforcement cases, and dealt with the events of September 11 (and enabling the Capital Markets to operate on September 17) as well as the aftermath.

5. There are two components of Mr. Grasso's compensation that provide for an 8% return. In 2000, the Board awarded Mr. Grasso a Special Payment of $5,000,000 that vests in February 2006. Until this Payment vests, it is carried on the NYSE's Balance Sheet as a Book Entry and earns 8%/year. The $5,000,000 was accrued and reflected as an expense in 2000. Earnings are accrued and reflected as an expense annually.

   Mr. Grasso participates in CAP at the 50% level. As described earlier in this letter, the unvested portion of CAP awards are carried on the NYSE's Balance Sheet as a Book Entry and earn 8%/year. The Awards are accrued and reflected as an expense when they are earned. Earnings are accrued and reflected as an expense annually. The portion of unvested CAP Awards Mr. Grasso has at present is valued at $9,730,346. Under his new agreement, as these funds vest, they will be paid to Mr. Grasso. No CAP Awards will be made to Mr. Grasso going forward. Other CAP participants' funds are moved to a Rabbi Trust as they vest, where participants are able to choose from among nine investment vehicles.

   There are presently 11 other executives who participate in CAP. Robert G. Britz and Catherine R. Kinney participate at 50% of the Award, six other executives participate at 25%, and three others at 15%.

6. There is no impact on the NYSE's operating revenues and net earnings because of the "payout" since, as noted, all the funds were accrued as they were earned. (Mr. Grasso's "pay package" going forward will be an NYSE expense.) There is no earmarked revenue to fund the "payout", which will be made from the Exchange's working capital.

   As a Not-for-Profit (Membership) Organization, the Exchange cannot distribute ordinary dividends and its equity ownership is tied to its trading rights. Therefore, it does not seek to maximize net earnings. However, it does control its expenses with the objective of generating a profit each year (on which it pays income taxes) in order to assure that its working capital grows in proportion to the growth of its business.

The Exchange funds the operation of its regulatory program (which has accounted for approximately 23% of the fully allocated costs since 1995) and other programs from current revenue and, therefore, their funding is not affected by the payment of benefits to Mr. Grasso since the payment had previously been accrued.

7. Mr. Grasso's new Employment Agreement, which is set out in Exhibit 11, results from a decision in 2002 by the Compensation Committee to recommend extending Mr. Grasso's tenure beyond May 2005 (the termination date of his 1999 Employment Agreement). To summarize the compensation and benefit changes from his prior Employment Agreement:

Term:	May 31, 2007
Salary Deferral:	No future participation
Capital Accumulation Plan:	Awards eliminated going forward
	Payment of presently vested and accrued awards
	Payment of past awards as they vest or at death, to Mr. Grasso's beneficiary
SERP:	Compensation has been capped at 1999, 2000, 2001 level (using 2002 would have increased Mr. Grasso's benefit)
	The new Mortality Table effective in 2003 has been waived (this, too, would have increased Mr. Grasso's benefit)
	Payment of vested and accrued benefit (approximately \$51,600,000) and payment of the remaining balance in installments in the years 2004-2007
SESP:	Payout of current account including SESP contributions and NYSE match, the Special Payment awarded in 2001, and deferred salary and ICP
	Payment of the 6% SESP contribution and Exchange match each year going forward
2000 Special Payment:	Payable when vesting occurs in February 2006 or paid at a prorated amount at death to Mr. Grasso's beneficiary

It should be noted that when Mr. Grasso entered into prior Employment Agreements he was paid his vested and accrued SERP benefits.

Under Mr. Grasso's 2003 Employment Agreement, going forward after the payment of the approximate $139.5 million of previously earned and accrued benefits when the Agreement was entered into, Mr. Grasso would have been paid during the years 2003 throughout 2007, (a) base salary of $1.4 million each year and a target bonus (not guaranteed) of at least $1 million each year; (b) the accrued and earned, but not yet expensed, balance of his supplemental retirement benefit in the about of $7.138 million in each of 2004-2007 (should the interest rate used to determine the SERP lump sum change, there may be an adjustment in 2007); (c) the unvested amounts that have previously been credited to him as they become vested in accordance with the CAP on his 57th through 60th birthdays in the amounts of $1.450 million in 2004, $2.950 million in 2005, $3.116 million in 2006, and $4.605 in 2007; and (d) a special retention payment awarded for 2000 in the amount of $5 million (plus interest at 8% per year from February 1, 2001) on February 1, 2006 if Mr. Grasso is employed by the Exchange on that date. As noted, Mr. Grasso has determined to forgo receipt of his prior compensation and benefits (items b-d) and, therefore, to forgo approximately $48 million over the next four years.

8. When Mr. Grasso no longer holds his current position, he will be entitled to Qualified Pension Plan Benefits, Post Retirement Medical Benefits and Life Insurance, his ICP Award for the year in which he leaves, and Directors and Officers Liability Insurance related to his employment term for at least six years. These are benefits afforded to all employees. (The Directors and Officers Liability Insurance is referenced in the Employment Agreements. No other documents are responsive.)

9. As anticipated in our May and June correspondence with you and your staff, subsequent to the issuance by the Special Committee on NYSE Governance of its Interim report and the Board's adoption of the Special Committee's initial recommendations at its June 5, 2003 meeting, the Special Committee has held three days of hearings during which it has received oral presentations from 20 constituent representatives and other interested persons. It has also received written views from 23 organizations and individuals, most of whom are among those who made oral presentations. It expects to hold its last hearing on September 29 and to receive written responses from several other organizations.

   The Special Committee has also used each of its hearings days to discuss issues raised and proposals made by commentators, its members, its counsel and NYSE staff. It continues to target the end of September for issuing its final report and recommendations and a draft report is under preparation. Meeting this target will permit the Exchange Board to act on the Special Committee's recommendations at the Board meeting on Thursday, October 2. The Special Committee expects to recommend that the Board seek comment on its report and recommendations.

   After receiving comments, the Board will initiate the process of amending the Exchange Constitution (by-laws) to effect the approved recommendations that require such amendments.

I trust that this letter is responsive. We believe we have provided all the relevant documents in our possession. If other documents are located, we will supplement the Exhibits.

If you have any questions, you or your staff may contact me at (212) 935-7780 or you may call Frank Z. Ashen, Executive Vice President at (212) 656-2277.

Sincerely,

Carl McCall