

Financial Information Notice – 2002-02 (UPDATED)

To: All ISE Members

Date: June 24, 2002

Re: Exchange Fees

The International Securities Exchange (ISE or Exchange) recently made certain revisions to its Schedule of Fees and related policies and procedures. This notice updates ISE members on those revisions.

Order Cancellation Fee

An Electronic Access Member (EAM) can use a disproportionate amount of communication bandwidth by canceling orders immediately after entering them. A significant number of order/cancellation messages can cause congestion in the ISE Order Routing System (IORS). Accordingly, effective July 1, 2002, during any single month when an EAM's total number of order cancellations exceeds the total number of orders executed by the EAM, the Exchange will impose a \$1.00 order cancellation fee on the EAM for that month for each order cancellation. This fee will not apply to an EAM that cancels fewer than 500 orders. The Exchange believes this fee will ease congestion in IORS and will fairly allocate costs.

CMM Inactivity Fee

Pending approval by the SEC, effective in August, the Exchange will impose an "inactivity fee" of \$25,000 per CMM Membership on each CMM Membership that does not actively trade during a month. There is an exemption for a member that also is operating a leased PMM Membership in the same bin as the inactive CMM Membership. The Exchange also has the ability to grant exemptions from this fee to a member that is operating at least one CMM Membership and that presents the Exchange with a business plan that the Exchange determines will lead to active trading in all other bins within a reasonable period of time. The Exchange will impose the fee on the owner of the Membership unless the owner has entered into a lease prior to August 1 with a member approved to operate the Membership. In that case, the fee will apply to the lessee.

Marketing Fund Fee

The Exchange currently imposes a \$.10 fee on certain market maker transactions to establish a marketing fund. There currently is a sufficient amount of money in the marketing fund to finance these efforts for the foreseeable future. Thus, the Exchange will suspend the fee beginning July 1, 2002 for six months.

Execution Fees

The ISE Schedule of Fees provides that execution fees for market makers and firm proprietary trades decrease at several breakpoints (see below), resulting in transaction fees that may vary monthly.

Execution Fees for Market Maker and Firm Proprietary (per contract / side)	
▪ A.D.V. Less Than 300,000	\$0.21
▪ A.D.V. From 300,001 to 500,000	\$0.17
▪ A.D.V. From 500,001 to 700,000	\$0.14
▪ A.D.V. Over 700,000	\$0.12

The amount of the execution fee is determined through a weighted average calculation based on the total average daily volume (ADV) for a month. For example, a month with an ADV of 400,000 contracts would have an execution fee of \$0.20 (the weighted average of 300,000 contracts at \$0.21 and 100,000 contracts at \$0.17).

The amount of the execution fee is calculated on the last day of the month, rounded to the nearest penny, and applied to all contracts traded in that month. **We anticipate that, for the month of June 2002, a further reduction to \$0.18 in the execution fee will result since our running ADV will likely exceed the reduction level of 600,000 contracts.**

Multiple IORS Discount

While most members have only one IORS (ISE Order Routing System) connection, some members have a separate IORS connection for each clearing relationship. Effective June 1, 2002, we began discounting multiple IORS connections to reflect the reduced costs on the ISE for supporting such members. Accordingly, members will be charged \$250 each for the first two IORS connections and \$50 for each additional connection.

Licensing Fee

The Exchange has adopted a \$.10 surcharge on non-customer transactions in options on the iShares S&P 100 Index Fund. The surcharge is intended to defray Exchange licensing costs associated with listing this product.

T-3 Connection Charge

Members currently connect to the ISE through either a T-1 line or lines with smaller capacities. Some members have requested to connect to ISE through a T-3 line, providing very high capacity. Thus, the Exchange adopted a connectivity charge of \$1,250/month per T-3 line to recover its costs in providing this level of connectivity.

Telecommunication Alternatives

On June 3, 2002, ISE announced that it expanded connectivity capabilities for members by allowing members to utilize alternative telecommunication carriers to those provided by ISE. Accordingly, a member may now elect to order its own telecommunication lines from its preferred carrier(s) or remain with the current carrier(s). This alternative may enable a member to realize cost savings by leveraging its relationship with other telecommunication providers.

For more information regarding telecommunication alternatives, contact Thomas Chen, Accounting, at 212-897-0216 or (tchen@iseoptions.com).

Gateway Equipment Alternatives

Some members have requested to provision their own telecommunication connections to ISE. Soon ISE will notify members of the procedures to convert an ISE-provided circuit to a member-provided circuit. The Exchange anticipates that it will soon have a program in place enabling members to purchase gateway equipment from ISE or provision their own equipment.

Automatic Payment of Fees

Some members have requested to have all of their ISE fees automatically debited from their clearing account. Currently, only execution fees and comparison fees are automatically debited from a member's clearing account. The Exchange now has the capability to automatically debit all ISE fees. Therefore, members interested in this program should contact Andreas Michael, Controller, at 212-897-0211 (amichael@iseoptions.com).

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ISE's Schedule of Fees is posted on the ISE website at the following URL: <http://www.iseoptions.com/legal/legal.html>. Questions regarding this notice may be directed to the attention of Andreas Michael, Controller, 212-897-0211 (amichael@iseoptions.com), or Bruce Cooperman, Chief Financial Officer, 212-897-0220 (bcooperman@iseoptions.com).