CALSTRS
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June 17, 2009

Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: Proposed Amendments to Regulation SHO
File Number S7-08-09

Dear Ms. Murphy,

We are writing to you on behalf of the members of the California State Teachers' Retirement System (CalSTRS). CalSTRS was established for the benefit of California's public school teachers over 90 years ago and is currently the second-largest public pension system in the United States. The CalSTRS portfolio is currently valued at approximately $120 billion and serves the investment and retirement interests of nearly 800,000 plan participants. The long-term nature of CalSTRS' liabilities, and our responsibilities as a fiduciary to our members, makes us keenly interested in efforts to restore and maintain investor confidence while preserving the efficiency of the capital markets.

The purpose of this letter is to provide our comments on the Securities and Exchange Commission's (Commission) proposed amendments to Regulation SHO under the Securities and Exchange Act of 1934. We commend the Commission for reconsidering and seeking public comment on the proposed amendments to ensure short selling is used as a proper mechanism for liquidity and efficiency in the capital markets and not for abusive purposes.

First and foremost, CalSTRS does not believe that short selling should be eliminated. We recognize the role short sellers play, not only for efficiency and liquidity, but also as an effective means which allows an investor who believes a stock is over-valued to short it. Short sellers provide a balance to the capital markets, contribute to price discovery, and when used legitimately and lawfully, should be allowed to continue.

The Commission has proposed two broad approaches that impose price restrictions on short selling: 1) a price test that would apply on a market-wide and permanent basis or 2) a circuit breaker which would apply only to a particular security during severe market declines. While CalSTRS does not favor one approach over the other, recognizing both have advantages and disadvantages, CALSTRS does strongly support the reinstatement of a meaningful "up-tick rule" in some format.

The former rule 10a-1 was in place for almost 70 years until the Commission eliminated all short sale price restrictions in July 2007. The period that followed, was one of the worst market downturns since The Great Depression. In addition to the severe market down turn, volatility in the financial markets reached all-time highs. While we recognize the contributions short sellers provide to price discovery in our markets, we also note that market participants can use short selling to illegally manipulate prices of stocks. We firmly believe that "bear raids', in the fall of 2008, were attempting to destroy the top financial institution. We believe the reinstatement of a market-wide price test would address the market's biggest concern by eliminating the short sellers' ability to drive prices down by hitting bids at successively lower levels. We believe short sellers provide a balance to the capital market system, but without regulation to counter the effects of short selling it can be used to further deteriorate declining markets. It is vital that the Commission restore balance to the market place and re-establish investor confidence.

In regards to the various circuit breaker rules proposed, CalSTRS believes they are sub-par when compared to the price tests proposed. The proposed circuit breaker rules introduce unnecessary complications; such as, what percentage constitutes an intraday price drop to warrant a short selling halt or should different percentages apply to stocks in terms of market capitalization or price. The most direct approach would be to implement a modernized version of the former up-tick rule.

To conclude, we believe whatever rule is implemented should be reflective of the technological advances, expansions, and the very means in which our markets operate today. Today millions of securities are traded across multiple venues every second of every day. Technological and operational advancements have occurred in just the last decade, beginning in 2000 when stocks ceased to trade in fractions. The one penny up-tick was a hold over from when stocks used to trade in increments of one-eighth; the eighth is now equivalent to 12 cents. A penny uptick is meaningless. Something on the magnitude of five cents or ten cents is needed to make the up-tick meaningful. The markets today function in a very different manner then they did in 1938 when the original up-tick rule was established. We urge the Commission to establish the most transparent, cost-effective, and simplistic, yet meaningful rule that would help prevent abusive short selling practices and restore investor confidence.

Thank you for the opportunity to comment on this issue. If you would like to discuss this letter, please feel free to contact me at the number set forth above.

Sincerely,

Christopher Ailman
Chief Investment Officer