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March 8, 2005

Mr. Jonathan Katz  
Secretary, Securities and Exchange Commission  
450 Fifth Street N.W.  
Washington, DC 20549

Dear Secretary Katz:

**RE: Release Nos. 34-50699 and 34-50700; FILE NOS. S7-39-04 and S7-40-04**

This letter is sent on behalf of the California State Teachers' Retirement System's (CalSTRS) members. CalSTRS is the third largest public pension system in the U.S., with over \$128 billion in assets. CalSTRS manages retirement benefits on behalf of over 750,000 members and beneficiaries. CalSTRS' domestic equity portfolio is over \$50 billion; the fund invests in over 2,800 stocks domestically. In terms of market value, the domestic equity portfolio represents the overwhelming majority of our trading on national market exchanges. As a large institutional investor with significant fiduciary duties, with a vested interest in the stocks that trade on these exchanges as well as the exchanges themselves, it is heartening to see the number of important investment and market structure issues that Commission (Commission and SEC will be used inter-changeably) members and staff have proposed for comment over the last three years. CalSTRS continues to appreciate and applaud the leadership that the Commission has demonstrated over these important and difficult matters.

CalSTRS is pleased to provide comment on the Commission's proposed new rules regarding the Fair Administration and Governance of Self-Regulatory Organizations (SROs). CalSTRS has previously commented on the Commission's trade-through rule proposal and recognizes that this is part of a thorough attempt by the Commission to explore and provide a more competitive and efficient trading market. It is our hope that this review will result in investors and regulators resolving the issue of which market structures and by extension, the exchanges that house them, are best for investors and the public companies in which they invest. CalSTRS continues to believe that the operation and structure of the NYSE, as it currently stands, is not an appropriate model for competitive and efficient trading or investor protection.

CalSTRS supports the Commission's proposed requirement that a majority of the SRO's board of directors be independent. This requirement, along with the requirement that key committees of the board be composed entirely of independent directors brings the governance of the SROs in line with the rules that they have promulgated for the companies that list on their trading venues. The SROs are standard setters for the governance of these companies and their rules should comport with the ones that they require of their members. CalSTRS believes that the Commission is sincere in its efforts to mitigate the conflicts inherent in the SROs structure by establishing ownership rules and to require increased oversight of the SROs by the SEC. However, CalSTRS believes that the regulatory and business units of the organizations must be separated. CalSTRS urges the Commission to enact the suggestion contained in the Concept Release (File No. S7-40-04) that SROs be required to separate the two functions. The regulatory function is too important to investors to be one among many components of an integrated corporate structure. CalSTRS also supports the use of the funds received from regulatory fees, fines and penalties to support the regulatory operation. CalSTRS supports the increased transparency that the Commission is seeking on the operations of the SROs, especially the nominating procedures for directors and the compensation arrangements of its staff. We do believe that the investor representative should be completely independent and not affiliated with any listed company. It is our view that such an affiliation might compromise the investor representatives duty to protect the interests of investors.

It is our belief that the Commission is the appropriate body to oversee the regulation of the corporate governance of the stock exchanges. We believe this view is supported by the fact that the Commission is the final authority that the exchanges must report to when they change existing rules. The SEC, as a federal agency can oversee all exchanges, no matter where they are incorporated, and can ensure that investors in all states receive equal protection and treatment. We believe that this will simplify the operation of the markets for investors and allow for even-handed regulation of all markets; and, in time, this will remove the anticompetitive procedures and structures that exist in today's configuration.

Consolidating the regulation of the markets in a national body will result in greater trading certainty and in even application of any sanctions that may need to be applied. The NYSE, with its near monopoly of listed securities appears to have become more concerned about what is best for its members rather than what is best for investors. The Market 2000 Report Release discussed the costs of maintaining duplicate SRO systems and the effect that these costs were having on the investing public and the SROs own competitive position a decade ago. The United States Exchanges must compete for listings and liquidity in the global marketplace. It is clear that increased competition from the foreign trading markets and the electronic communications networks (ECNs) have caused the market share of the traditional floor-based exchanges to decrease. Indeed, estimates are that competition from ECNs has reduced NYSE's market share in the trading of its own stock down to 80%.

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While the current structure may have been appropriate in the past, technology and investing opportunities have changed and in order for the United States to remain a premier market for investors, it must recognize and respond to the technological and investing innovations. CalSTRS' experience as an institutional investor make it clear that the investment arena is moving to a more globally integrated, liquid and efficient market; investors are not served well by impediments to this process. CalSTRS believes that the benefits of consolidating regulation in one national body will increase efficiency; the institutional knowledge and experience will reside in one body; presumably, review processes like this one could happen in much shorter time periods. The SEC staff has proven that it has the requisite knowledge of the markets and skill to act as the national standard setter.

Thank you for the opportunity to comment on this important matter. If you have any concerns about this letter, please feel free to contact me.

Sincerely,

A handwritten signature in blue ink that reads "Jack Ehnes". The signature is written in a cursive, flowing style.

Jack Ehnes  
Chief Executive Officer