CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
Investments
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March 27, 2006

Mr. Jonathan Katz, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: File Nos. SR-NYSE-2004-12 and SR-NASD-2003-140

Dear Mr. Katz:

This letter is sent on behalf of the members of the California State Teachers' Retirement System (CalSTRS). CalSTRS is the second largest public pension system in the United States, with over $140 billion in assets that are managed on behalf of over 755,000 members and beneficiaries. Our domestic equity portfolio is currently valued at over $61 billion; CalSTRS 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 securities exchanges. Because of the volume of our holdings traded there, and our responsibilities as a fiduciary to our members, CalSTRS strongly supports any efforts to strengthen regulations designed to prohibit abuses in the allocation of shares in initial public offerings (IPOs) at both the National Association of Securities Dealers (NASD) and the New York Stock Exchange (NYSE). CalSTRS believes that it is critical to returning integrity to the IPO process, and to restoring the trust of investors, that the proposed rules on IPO allocation at both the NASD and NYSE be approved.

The NYSE/NASD IPO Advisory Committee, established in August of 2002, addressed several troubling issues surrounding the IPO allocation process. This committee found that transparency in share pricing was lacking, access to information was inadequate, and abusive allocation practices such as "flipping", "spinning" and "laddering" were commonplace. In response to this determination, a five year agreement between the SEC, NYSE, NASD, New York Attorney General Eliot Spitzer, and 10 leading investment banks was adopted that imposed several restrictions on abusive practices in the distribution of IPO shares. Among these restrictions was a prohibition on the allocation of securities in a "hot" IPO to any executive officer or director of the company. The agreement also prohibited investment banking personnel from having any involvement in the firm's allocation of securities. It was this required separation of research and investment banking that became the foundation of our Investment Protection Standards, adopted by CalSTRS in July, 2003.

Now the Commission has the opportunity to broaden and strengthen these important, yet temporary, IPO allocation restrictions. The proposed rules changes before you would permanently outlaw such practices as allocating IPO shares in exchange for higher commissions, kickbacks, future banking business, or other services. The proposed rules changes would prohibit arbitrary impositions of penalty bids on customers who sell their IPO shares. The proposed rules changes would also provide a mechanism for the treatment of returned IPO shares. Additionally, the proposed rules changes would improve transparency in, and information flow through, the IPO process. These are needed safeguards to a flawed process that threatens to undermine the principles of fairness that investors expect in the marketplace.

The faith of ordinary investors has been damaged by the manipulations of corporate insiders. Now the SEC has the opportunity to provide protection to those investors and return credibility to the financial markets. CalSTRS urges the Commission to once more show its commitment to providing the mechanisms needed to ensure capital market integrity. Again, we strongly urge you to adopt the proposed rules on IPO allocation and distribution as written.

If you would like to discuss this letter, please feel free to call on me.

Sincerely,

Christopher J. Ailman
Chief Investment Officer