



Investment Office

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February 2, 2006

Mr. Jonathan Katz
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

RE: File No. SR-NYSE-2005-77

Dear Mr. Katz:

The California Public Employees' Retirement System (CalPERS) is the largest U.S. public pension fund with over \$200 billion in total assets. CalPERS is a long-term shareowner and believes strongly in the importance of capital market integrity. We want to emphasize the importance of strong market regulation and enforcement in the environment post the proposed merger between the New York Stock Exchange (NYSE) and Archipelago.

One result from the proposed merger is the establishment of the NYSE as a for-profit corporation NYSE Group. NYSE Regulation, Inc. previously the regulatory arm of the original NYSE will become a non-profit subsidiary of NYSE, LLC. NYSE Regulation, Inc. will have a Board of Directors that will consist of representatives from NYSE Group and unaffiliated Directors.

CalPERS is sensitive to the importance of independence and objectivity by NYSE Regulation, Inc. in performing its mandates of listed company compliance, member regulation, market surveillance, enforcement and dispute resolution. We recognize that NYSE Regulation, Inc. is structured to be consistent with the required standards in compliance with federal law and Section 6 of the Exchange Act.

However, given the change in the NYSE business model and the unique nature of the relationship between NYSE Regulation, Inc. and NYSE Group, we believe regulatory oversight of NYSE Regulation, Inc. by the Securities and Exchange Commission should increase significantly. Recent litigation, settlements and criminal indictments suggest the current model for regulation of and by the New York Stock Exchange has failed. CalPERS recommends an enterprise model that has complete separation between the regulatory and non-regulatory function for the New York Stock Exchange. We would

**California Public Employees' Retirement System
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prefer to see the enterprise model for the Public Company Accounting Oversight Board used as a template for the regulatory function of the New York Stock Exchange. The Securities and Exchange Commission should have complete and direct oversight of the activities by NYSE Regulation, Inc. Furthermore, we prefer that the oversight board for NYSE Regulation, Inc. be comprised of individuals appointed directly by the Securities and Exchange Commission.

In the event the New York Stock Exchange cannot move forward with complete separation of its regulatory and non-regulatory functions, at a minimum CalPERS proposes the following:

- 1) The Securities and Exchange Commission and NYSE Group monitor the effectiveness of NYSE Regulation, Inc. for 18 months.
- 2) The Securities and Exchange Commission and NYSE Group present publicly at the end of 18 months a comparative analysis that would illustrate the effectiveness of NYSE Regulation Inc. in its post merger state versus the pre-merger state.
- 3) The SEC and NYSE Group are open for an engagement to strengthen the effectiveness of NYSE Regulation, Inc. if the comparative analysis indicates such steps are needed.

We appreciate the opportunity to express our concerns and interest with the Securities and Exchange Commission. Please contact me at (916) 795-2731 if there are questions.

Regards,



Dennis A. Johnson, CFA
Senior Portfolio Manager
Corporate Governance