Jack Ehnes
Chief Executive Officer

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

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California State Teachers'
Retirement System
7667 Folsom Boulevard
Post Office Box 15275
Sacramento, CA 95851-0275

916 229 3706 Tel
www calstrs com

November 20, 2003

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

Dear Mr. Katz:

RE: File No. SR-NYSE-2003-34

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). CalSTRS is a public pension fund, established for the benefit of California's public school educators 90 years ago. CalSTRS currently has a market value of approximately $107 billion; $43 billion of this amount is invested in the domestic public equity market. Nearly 80 percent, or about $34 billion, of our domestic equity portfolio is represented by companies listed on the New York Stock Exchange. As you are aware, CalSTRS is very interested in the governance reform process currently underway at the Exchange. We met with the Special Governance Committee of the Exchange in September and later met with the Interim Chair, John Reed, on the same matter. Additionally, we recently met with the Commission Chair William Donaldson to discuss the governance of the Exchange.

While these meetings have been informative and hopeful, we are profoundly disappointed with the reform proposal contained in the Exchange's most recent proxy statement. We are now facing the potential implementation of a "reform plan" that would allow a so-called independent Exchange board to be elected by the very members they are charged with regulating. This is not the proper message to send to investors in the midst of still more assaults on investor confidence arising from the specialist trading controversy and the mutual fund trading scandal.

We believe the opportunity for self-regulation as a governance model has been lost. The health of the capital markets depends on all parties recognizing this and accommodating the changes necessary to restore investor confidence.

Sadly, the reform proposal seems tailored by an elite faction that dictates it alone can discern fairness for investors. In view of the recent and current situations, this approach is outmoded. The Exchange has shown it cannot regulate itself and serve investors at the same time. The new structure detailed in the Exchange's proxy statement does not adequately address the failures of the self-regulation model or the expectations of the investing public. Clearly, this proposal is designed to give as much comfort as possible to the Exchange's members, while giving almost none to investors.

The two-tiered board structure is cumbersome; its structure will not enhance accountability; rather, it will obfuscate it. The proposal does not even call for the separation of Chair and CEO; such a concentration of power will not be ignored by the candidates who seek executive positions at the Exchange.

The opportunity to put an independent Board of Directors at the top of the pyramid has been lost in this proposal. This is not a comment on the individuals who have been named to the Board of Directors in this proposal; we believe that it is an impressive roster, and are particularly encouraged to see that Madeleine Albright has remained and that Shirley Jackson has been nominated by Mr. Reed. But apparently this circle is not wide enough to include public pension fund investors, as there are no public institutional investor nominees. Public institutional investors account for a majority of the trades executed on the Exchange, both through their investment managers and directly. Our capital should have representation at this table.

We urge the Commission to reject this proposal as inadequate for the monumental task at hand and incorporate the suggestions that institutional investors have been urging for a long time:

- **Recommendation 1**: **Align regulator's interest with investor's interest.** Having a regulatory body, owned and controlled by the very entities it regulates creates a conflict with investor interest. While we realize that the Exchange is a hybrid of a business and a regulator, we believe separation of the two functions will keep the regulator's focus on behalf of investors, and allow the business of the Exchange to be conducted without a need for the delicate balancing of interest that must now occur. It is our recommendation that the regulatory function of the exchange be separated from the business aspect.

- **Recommendation 2: Require a majority of independent directors with significant representation from the public institutional investor community.** The current proposal does not represent independence, accountability or transparency. We do appreciate Mr. Reed's proposal does not allow persons who are executives of a brokerage firm or of a company whose securities are listed on the Exchange, but we believe that the proposal does not go far enough to protect investors. The nomination process should be guided by the constituencies, not the executive of the Exchange.

- **Recommendation 3: Set a gold standard for disclosure.** The Exchange should serve as the model for openness and transparency. We believe that it is important that the key committees issue an annual report to the public on how they functioned and executed their duties. We also believe that the Exchange should have a committee of directors who are responsible for succession planning for the executive management of the Exchange. We were dismayed to read that no report would be forthcoming on the Grasso payout because it would "just be too embarrassing."

- **Recommendation 4: Reject the dual board structure.** It is complex and does not offer investors any advantages over a traditional single board structure that would use independent committees. If a single, larger (between-seven and eleven members) independent board is created, there will be more members available to serve on key committees. The single board structure is the most successful governance model known in democratic capitalism; the dual structure advocated by the very listing body that sets standards for our companies represents an unacceptable example. Additionally, this would seem to further concentrate the power of the executive of the Exchange, since that position, being both Chair and CEO, will be the only link between the two boards as currently envisioned.

We would appreciate working closely with you to further refine these ideas. **As** a large long-term investor, the success and image of the Exchange is of prime concern. Our combined goal should be to restore confidence through meaningful, profound improvements to show all investors we are serious about our efforts to make this a level playing field for all.

Thank you for the opportunity to comment on this matter.

Sincerely,

Jack Ehnes

Jack Ehnes
Chief Executive Officer