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June 2, 2004

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

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Jack O'Connell

Dear Secretary Katz:

**RE: FILE NO. S7-10-04**

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 \$116 billion in assets. CalSTRS manages retirement benefits on behalf of over 735,000 members and beneficiaries. CalSTRS' domestic equity portfolio is nearly \$49 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. CalSTRS is a substantial market participant who must, of necessity, trade in the secondary equity market in the U.S. 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 members and staff have proposed for comment over the last two years. CalSTRS appreciates and applauds the leadership that the Commission has demonstrated over these important matters.

CalSTRS is pleased to provide comment on the Commission's proposed uniform rule for all national market systems (Regulation NMS) that would generally require such centers to establish, maintain, and enforce policies and procedures designed to prevent the operation of the "trade-through" rule. Although best price is an important criteria for judging trading results, it is important for investors to have the choice of opting out of the rule, when speed may be equally or more important. We recognize that the trade-through rule has its origins in the sincere desire to protect investors and that is doubtless, why the rule has stood for so long. However, technology now allows investors an opportunity for expeditious trading that was not available to market participants when the "trade-through" rule originated almost 30 years ago. The present day trade-through rule is obsolete; the unchecked operation of the "trade-through" rule all these years has allowed an enormous technological divergence to develop between the national market systems.

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CalSTRS does not believe that either investors or the NYSE is well served by allowing the current trade-through rule to protect less capable, efficient markets to the detriment of those markets that are more efficient. Furthermore, CalSTRS believes that investors would benefit from a uniform rule for all market centers and that this would address the technological divergence problem that investors now face. In light of the recent specialist trading scandals and the cost to investor confidence, we believe that floor-based exchanges like the NYSE should be required to have automated trading system policies and procedures that allow for the technologically faster markets to execute trades in NYSE-listed stocks. The customer should come first and clearly, the customers of these national market systems want to be able to choose certainty and speed when it suits them.

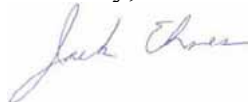
CalSTRS supports the exceptions that the Commission has detailed in this proposal that provide:

1. That investors make an informed decision to opt out of the trade-through protections and that such consent be given on an order-by-order basis. This exception protects investors who may not be aware of the difference between speed and best price and allows the ultimate investor, not the broker or trader to make the choice.
2. That automated markets, without restriction, be allowed to trade through a better displayed bid or offer on manual or non-automated market up to the negligible amount of one to five cents, depending on the stock's price. We believe that as the manual exchanges automate their systems and put policies and procedures in place to effect this proposed rule, this exception should be revisited; as it seems to us that the exception is designed to compensate for the difficulty of obtaining market quotes in manual markets.

CalSTRS believes that the Commission has proposed a rule that will strengthen investor confidence in the trading systems of the U.S., support a competitive market system, support the use of technology by all the market systems and sets a standard that protects the ultimate investor in these stocks, shareholders. We offer our support for the Commission's thoughtful efforts in this matter and applaud the speed with which you have addressed the inherent disparities between manual and automated markets.

Thank you for the opportunity to comment.

Sincerely,



Jack Ehnes  
Chief Executive Officer