CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
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December 2, 2013

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Number S7-07-13, Proposed rule to implement Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act

Dear Ms. Murphy:

We are writing to you on behalf of the members of the California State Teachers' Retirement System ("CalSTRS"). As you are probably aware, CalSTRS was established for the benefit of California's public school teachers 100 years ago and is the largest educator-only pension fund in the world. CalSTRS serves the investment and retirement interests of nearly 862,000 plan participants. The long-term nature of CalSTRS' liabilities, and its responsibilities as a fiduciary to its members, makes the fund keenly interested in governance issues that affect the companies in which we invest.

We are writing to comment on the U.S. Securities and Exchange Commission's ("SEC" or the "Commission") proposed rule to implement Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank") – otherwise known as the pay ratio disclosure. First and foremost, we want to express our gratitude to Chair MaryJo White and the SEC for their efforts to draft the hundreds of rulemakings required under Dodd-Frank. The pay ratio rule is just one of the many mandated rules required by this landmark piece of legislation.

We commend the Commission for proposing a rule that provides a large amount of flexibility that will hopefully diminish the costs associated with complying, without reducing its benefit to investors. We also believe that the final rule should provide issuers the opportunity to supply additional commentary to the required pay ratio disclosure which would discuss in more detail the company's philosophy regarding compensation. Similar to what is currently provided in the Compensation Discussion & Analysis section of proxies, the pay ratio disclosure gives investors a better understanding about the business model at the company that may drive the pay ratio.

While the proposed rule presents many questions, especially related to the costs and benefits of the rule, we can only opine on the benefits we believe we will receive as an institutional investor. From a technical aspect, we believe the disclosure of the pay ratio will provide the following benefits to us as long-term shareholders:

- The pay ratio will provide an additional metric for evaluating and voting on executive compensation practices and say-on-pay proxy proposals.
- Currently, CalSTRS evaluates CEO pay relative to other named executive officers and disclosure of the CEO pay to median employee ratio will aid in evaluating CEO pay levels in the context of companies' broader compensation structures.
- Investors will be able to see how the ratio evolves over time at individual companies and relate that to company performance.

Lastly, and possibly most importantly, we believe the pay ratio disclosure is something that members of compensation committees should already be aware of and manage in their role as shareholder representatives. CalSTRS is a long-term investor and has been actively involved in corporate governance issues, such as executive compensation for over two decades. We have Corporate Governance Principles[1] that articulate our view on executive compensation and specifically the compensation committee's responsibility over the company's pay philosophy which should include a long-term view of the program, an evaluation of its effectiveness, and a comprehensive list of topics committees should consider in the context of their oversight role. We believe the CEO to median worker pay ratio should be part of their responsibilities across the total compensation plan and structure.

CalSTRS has long been an advocate of superior compensation for superior performance, however we do believe there is a point where shareholders and the broader marketplace are not reaping the benefits of these high levels of pay. Directors, and especially compensation committee members, need to be aware of the pay ratio for the current disclosure requirement, but also all ratio measurements that relate to the deployment of human capital. The marketplace will naturally use the pay ratio disclosure and compare it to other performance measures in efforts to understand a company's business model.

People and morale can drive success at an organization or can lead to ultimate failure. Like other capital allocation decisions, compensation committees need to be aware of how their company allocates capital to its workforce and understand how outsized pay at the top can affect morale down the chain of the organization. Boards of directors and institutional investors have a fiduciary duty to thoroughly review all aspects of compensation with diligence and care, and understand how the various ratios and metrics will be interpreted in the marketplace. In addition, it is important for institutional investors to review compensation as it affects the value of our investments.

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[1] CalSTRS Corporate Governance Principles are posted at http://www.calstrs.com/corporate-governance-overview

At CalSTRS we support governance structures that promote best practices in the marketplace and we support disclosures that help us make informed decisions on proxy votes or engagement targets. All of which helps us safeguard the investment portfolios to provide future retirement savings for our beneficiaries.

Once again, we applaud the Commission for its efforts to implement the pay ratio disclosure and we appreciate the opportunity to comment on the proposed rule. If you would like to discuss this letter further, please feel free to contact me at the number set forth above.

Sincerely,

Anne Sheehan

Anne Sheehan
Director of Corporate Governance