Jack Ehnes
*Chief Executive Officer*

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

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May 24, 2006

Ms. Morris
Secretary, Securities and Exchange Commission
100 F Street NE.
Washington, DC 20549-1090

Dear Secretary Morris:
**RE: Release No. 34-53721; FILE NO. SR-NSX-2006-03**

This letter is sent on behalf of the California State Teachers' Retirement System's (CalSTRS) members. CalSTRS is the second largest public pension system in the U.S., with over $140 billion in assets. CalSTRS manages retirement benefits on behalf of over 775,000 members and beneficiaries. CalSTRS' domestic equity portfolio is over $60 billion; the fund invests in over 2,800 stocks domestically. In terms of market value, our domestic equity portfolio represents the overwhelming majority of our trading on national market exchanges. 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 (Commission and SEC will be used inter-changeably) members and staff have proposed for comment over the last five years.

CalSTRS has previously commented on the structure and governance model of self-regulatory organizations (SROs) (see comments submitted on Release No. 34-50700; File No. S7-40-04). CalSTRS continues to believe that the governance of SROs is an important issue for investors and welcomes the opportunity to comment on this proposal. We trust that although the Commission has initially set a short comment period, it will be sure to encourage input even after the comment period so as to assure that it receives the views of all concerned.

CalSTRS has consistently maintained that there is an inherent conflict presented when the regulatory function and for-profit aspects of an SRO fall under the same administration. This conflict should be of substantial concern to investors and the Commission. In this regard, we do not believe that the National Stock Exchange (NSX) should operate as both a SRO and a for-profit business. We appreciate that the NSX proposes various structural provisions to protect the independence of the self-regulatory function. We do not believe, however, that these provisions sufficiently cure the overarching conflict in this model.

It is important that self-regulation be independent both in fact and in feature. As proposed, the regulatory operation of NSX will be subordinate to the business model of its parent, which will always have to honor the obligation to maximize value to its shareholders. Moreover, even if structural provisions could mitigate this conflict, the mere appearance of such a conflict is sufficient to warrant disapproval of the arrangement. To be effective, markets must have an unvarnished appearance of independent oversight, monitoring and enforcement. Investors must not only have a fair market; they must believe that the market will be fair. This goes not only for the regulation of the market mechanisms but also for the setting and enforcement of listing standards that pertain to listed securities.

The NSX's proposed structure does not present an appropriate model for competitive or efficient trading or for transparency to investors. Investors are rightly concerned that this proposed structure is likely to result in a search for the lowest common denominator, as NSX and other demutualized exchanges dilute their standards in order to attract listings.

CalSTRS is not opposed to demutualization of exchanges. CalSTRS understands that member-structured organizations may not offer the best business model for today's global markets and economy. We own shares in the New York Stock Exchange Group and look forward to growth in its earnings and market value. However, even as an investor in that company, we do not support that the regulatory function is not carried out separate and apart from the overall business.

In our view, the Commission should move to consolidate the regulation of US stock exchanges into a central and independent body, one which would oversee both regulatory and listing standard functions. Consolidating the regulation of the markets in a national body will result in greater trading certainty and in even application of any sanctions that may need to be applied. Moreover, we believe that this structure presents the model that is likely to build confidence and integrity and that will reassure investors that adequate controls are in place to avoid the scandals and lapses of the not-so-recent past.

Finally, CalSTRS also believes that the benefits of consolidating regulation of stock markets into one independent entity would drive further momentum towards more globally integrated, liquid and efficient markets. Battles for listings fought out through divergence in regulatory and listing standards are dysfunctional and serve to impede this process, all to the detriment of investors. CalSTRS believes that consolidating regulation in one national body will increase efficiency by concentrating necessary knowledge and experience for the oversight of markets and thereby enhancing the speed and efficiency with which such oversight is administered.

Thank you for the opportunity to comment on this important matter. If you have any concerns about this letter, please feel free to contact me.

Sincerely,

Jack Ehnes

Jack Ehnes
Chief Executive Officer