CORPORATE GOVERNANCE

Enhancing the Return on Capital Through Increased Accountability

Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Delivered via e-mail to: rule-comments@sec.gov

Dear Ms. Morris:

As an investor and consultant on corporate governance, I write in support of CalSTRS' rulemaking petition, file # 4-570, "Request for rulemaking under the Securities Exchange Act of 1934 to amend Rule 10A-3 to require that issuers submit their choice of auditor to a non-binding vote of shareholders for ratification."

However, please consider the following more flexible policy to encourage even greater auditor independence. Give each company the choice of --

(a) following the CalSTRS proposed standards for ratification of an auditor chosen by the audit committee; OR
(b) choosing the auditor by competitive shareowner vote.

In the current system, management chooses the auditor, and shareowners merely rubber-stamp or reject that choice. Under option (b) however, shareowners would choose (by vote) among several auditing firms competing for the position. This would encourage auditors to build their reputations in the eyes of investors rather than in the eyes of management, creating new pressure for higher standards. Investors could decide how important auditor independence is to them, and how it should be assessed.

The average investor may seem ill equipped to make such assessments on her own. But she would not make them on her own. She would benefit from consensus-building discussion by the entire investment community, including proxy advisory firms. It is much easier to assess reputations of auditors than of board members, because there are only a handful of auditing firms, versus hundreds of board candidates for a diversified portfolio of stocks over the years.

To keep management from restricting competition, any qualified auditor should be allowed onto the ballot, and there should be at least two candidates. Especially if management is permitted to recommend voting for their favored auditor, preferential

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voting should be used when there are more than two candidates, to avoid splitting the opposition vote: each voter could rank the candidates instead of just choosing her most-preferred one.

Even if the management-recommended auditor were never voted out, a rising percentage of opposition votes would provide a healthy early warning to the auditor, that its reputation is slipping and corrective action is required.

This proposal would create a competitive market for auditor reputation, allowing the SEC to get out of the complex business of assessing degrees of independence in such detail. Investors should be given the power and flexibility to determine standards of auditing services that best meet their needs.

For more information on this idea, see section 5, "Shareowners would benefit from electing the auditor," in Mark Latham's article titled Proxy Voting Brand Competition, Journal of Investment Management, First Quarter 2007. Thanks for the opportunity to comment.

Sincerely,

James McRitchie, Publisher/Consultant

cc: Jack Ehnes, CalSTRS
George Diehr, CalPERS
Mike McCauley, Florida SBA
Meredith Miller, Office of Connecticut State Treasurer
Richard Ferlauto, AFSCME
Damon Silvers, AFL-CIO
Tracey Rembert, SEIU
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