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California State Teachers'
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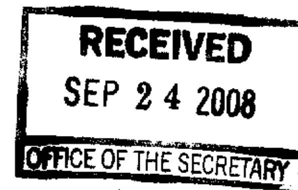
September 23, 2008

Florence E. Harmon, Acting Secretary
Securities and Exchange Commission
100 F St. NE
Washington, DC 20549-9303



Re: California State Teachers' Retirement System Petition for Rulemaking Concerning Shareholder Ratification of Auditors

Dear Ms. Harmon:

Pursuant to SEC Rule of Practice 192(a), the undersigned hereby petition the Securities and Exchange Commission ("Commission") to amend 17 CFR § 240.10A-3 ("Rule 10A-3") to require that issuers submit their choice of auditor to a non-binding vote of shareholders for ratification ("Proposed Rule"). Currently, Rule 10A-3(b)(2) states that the audit committee "must be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged . . . for the purposes of preparing or issuing an audit report or performing other audit, review or attest services for the listed issuer . . ." We believe that a rule requiring issuers to submit an audit committee's choice of auditor to a vote of shareholders will strengthen auditor independence and integrity.

Auditor ratification has become an industry "best practice" with over 79% of firms in California State Teachers Retirement System's ("CalSTRS") portfolio placing their auditors up for ratification, according to a survey performed by CalSTRS in 2008 ("CalSTRS Survey"). In total, nearly 95% of the S&P 500 and 70-80% of smaller companies allow shareholders to ratify their choice of auditor.[1] The CalSTRS Survey, summarized below, illustrates that smaller companies are less likely to allow auditor ratification:

[1] THE DEPARTMENT OF THE TREASURY, ADVISORY COMMITTEE ON THE AUDITING PROFESSION, *Draft Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury*, at VII:14 (May 5, 2008) ("Draft Report").

Market Cap	Percentage of Companies that do not Allow Auditor Ratification
Over $10 Billion	5.75%
Between $5 and $10 Billion	12.25%
Between $1 and $5 Billion	17.90%
Between $250 Million and $1 Billion	23.97%
Below $250 million	27.93%

These statistics are further confirmed by an analysis of Corporate Governance Quotient ("CGQ") profiles compiled by the RiskMetrics Group, which rates over 7,400 companies on corporate governance matters.[2] The analysis shows that only 12.1% of profiled companies listed on the Russell 3000 did not seek to have their auditor ratified at their most recent annual meeting.[3] However, of those Russell 3000 firms that did not seek shareowner ratification, 90.56% were small cap firms. This is an area where the best practices are actually to be found overseas; in the U.K., for example, the external auditor appointment is always subject to a binding annual vote.

For companies that currently enable such shareholder ratification, the advisory vote is important tool for shareholders to express concerns about a company's relationship with its auditor. While auditor ratification has the potential to improve corporate governance, many companies do not allow shareholders to vote on the company's selection of auditor. In CalSTRS' survey, the following reasons were given by companies for not allowing ratification:

1. The company would not know what to do if shareholders did not ratify its choice of auditor.

2. The company does not have a choice in the selection of auditor, so ratification would be of little practical value.

3. The company is unable to determine appropriate timing of auditor ratification by shareholders because its annual meeting does not coincide with the selection of auditor.

However, these objections are easily addressable. First, if shareholders do not ratify a companies' selection of an auditor, the company could do 1 of 3 things: (1) it could replace the auditor immediately; (2) if immediate change of auditor is not practical, a company could commit to review its selection of auditor and change auditors when practical; or (3) it could keep the same auditor and address shareholder concerns regarding the auditor.

Second, even if a company has no choice but to keep the same auditor, submitting the company's choice of auditor to a shareholder vote can have an impact on corporate

[2] The database is available at http://www.issproxy.com/issgovernance/esg/cgq.html.

[3] The Risk Metrics Group profiled 2,977 companies listed on the Russell 3000.

governance. For example, based on the vote, the company may reduce the auditor's fees from non-audit work or take further steps to ensure independence.

Third, because some companies' fiscal year-ends coincide with their annual meetings, at the time of the annual meeting, such companies may not have decided to retain or dismiss their auditor. Under the Proposed Rule, such firms may be permitted to state in the proxy that the Audit Committee is evaluating the current auditor and considering a change. They would further state that because no decision on choosing an auditor had been made, a ratification vote is not appropriate. However, under the Proposed Rule, the company would state that the current auditor may be retained in the next year and, regardless of which auditor is eventually chosen, that auditor will be put up for ratification at the next annual meeting.

Further, some companies have made the argument that shareholder ratification would serve little purpose in light of the fact that shareholders already have the ability to withhold votes when audit committee members stand for election. However, this argument discounts the fact that a shareholder may withhold a vote for an audit committee member for a wide variety of reasons. A company that monitors withheld votes would not necessarily be aware that shareholders were not satisfied with a company's choice of auditor. Thus, the Proposed Rule is uniquely tailored to give shareholders a voice in ensuring an appropriate relationship between a company and its auditor. Additionally, the Treasury Department Advisory Committee on the Auditing Profession now recommends that public companies adopt annual shareholder ratification of public company auditors, even though ratification is not now statutorily required. The Advisory Committee notes that "ratification allows shareholders to voice a view on the audit committee's work, including the reasonableness of audit fees and apparent conflicts of interest."[4]

Sarbanes Oxley Pub. L. No. 107-204, 116 Stat. 745 (Codified in Scattered Sections of 11, 15, 18, 28, and 29 U. S. C.) and the Commission's Rules promulgated thereunder, give audit committees broad powers to ensure that auditors are sufficiently independent from companies. Under the Proposed Rule, the audit committee would still have primary responsibility for selecting the auditor. Indeed, it would still have the discretion to choose any auditor it sees fit as shareholder ratification is non-binding. However, the Proposed Rule would give shareholders a voice to concur or disagree with the audit committee's selection.

Sincerely,

Christopher Ailman
Chief Investment Officer

cc: Public Company Accounting Oversight Board

[4] Draft Report at VII: 14.

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