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Written Testimony by

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House Committee on Financial Services
Subcommittee on Capital Markets and Government Sponsored Enterprises

Hearing entitled "Market Structure: Ensuring Orderly, Efficient, Innovative and Competitive Markets for Issuers and Investors"

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Thank you for inviting me to speak with you today regarding market structure and fostering innovative and competitive capital markets in the United States. My name is Jeff Solomon and I am the Chief Executive Officer of Cowen and Company, an emerging growth investment bank focused on servicing growth-oriented companies in sectors such as healthcare, technology, telecommunications, media, aerospace and defense, and retail.

Our clients represent some of the brightest and most motivated entrepreneurs in the country. They are actively seeking to develop products and services that can change, enhance or positively disrupt whole sections of our economy and, while they deploy their vision, in more cases than not, they are significant creators of long-term private sector jobs. In order to continue to grow their companies, these visionaries need access to the capital formation provided by the equity markets.

I am very proud of the growth our country has achieved by fostering the greatest capital markets structure the world has ever seen over the past century. To be fair, the system isn't always perfect and I fully support regulation to ensure the system functions properly. Market oversight is a significant task and I know this committee, the SEC and other oversight bodies have been working diligently to address a multitude of issues. But I do believe that we need to be extremely careful to examine how regulations imposed over the past decade have adversely impacted the equity markets and damaged capital formation at the very time it is most needed.

The last decade has shown a significant decrease in the trading liquidity for most small cap issuers. At the same time, retail investors are less relevant than institutional investors in individual stocks as evidenced by the popularity of mutual funds and Exchange Traded Funds, who are now the dominant market participants. A lack of liquidity in any small cap stock makes it difficult for investors to accumulate a position. Moreover, portfolio managers carefully assess liquidity when determining position size and price as they know it may be hard to get out of the stock when their price targets are reached or should they need to sell to generate liquidity to meet investor redemptions. This dynamic has severely narrowed the investor universe for small cap companies thereby making it difficult for them to raise capital to expand. Indeed the number of IPOs raising less than $60 million has fallen precipitously over the past decade.

One of the principal reasons for the lack of liquidity in small cap stocks can be directly attributed to the advent of decimalization, meaning trading in penny increments. As a direct result of reduced trading spreads, professional market makers and specialists, whose job was to provide liquidity for their clientele, were forced to overhaul, sell or dissolve their businesses to contend with much lower revenues. This, in turn, gave rise to two market forces affecting market structure - electronic trading and reduced research coverage of small cap stocks.

The following pages and figures are provided as detailed information to support my oral testimony and are intended to highlight some key trends taking place with regard to market structure in the U.S., including:

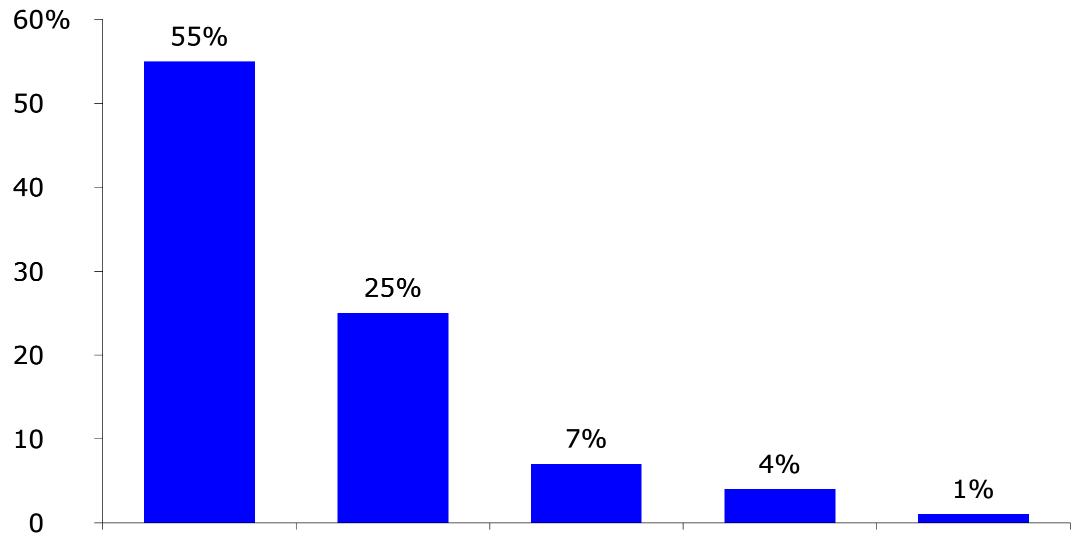
- The undercoverage of small cap stocks by sell-side research analysts;
- The decline in “Small IPOs”, or IPO transactions raising $60 million in proceeds or less;
- The decline in companies listed on U.S. exchanges and U.S. exchanges’ global competitiveness; and
- The relationship between employment and IPO activity.

We have the opportunity to re-examine current market trading structures to further support the positive initiatives created in the JOBS Act. By pursuing modifications to existing legislation and regulations around decimalization that bring back market makers for small cap stocks, Congress and the regulators will be telling Wall Street executives how they can allocate their resources to profitably meet the needs of their clients while fostering job growth in America. We can still be the leader in funding successful innovation in the U.S. But in order to thrive once again, we must make it more economically viable for small companies to access the capital markets to fund their growth, create new industries and provide Americans with the job growth from the private sector we so dearly want.

I. Sell-Side Research Coverage of Small-Cap Companies

Reduced trading spreads forced professional market makers and specialists, whose job was to provide liquidity for their clientele, to overhaul, sell or dissolve their businesses to contend with much lower revenues. This, in turn, gave rise to two market forces affecting market structure - electronic trading and reduced research coverage of small cap stocks. In regards to the latter, a significant portion of small cap stocks today are either undercovered by sell-side analysts or not covered at all. The chart below shows research coverage by market capitalization for companies traded on NASDAQ.

(Stocks traded on NASDAQ with No Analyst Coverage)



Quintile	1	2	3	4	5
Market Cap Range (MM)	$0 - 41	$41 - 119	$119 - 301	$301 - 926	$926+
Median Mkt Cap (MM)	$21	$72	$189	$526	$2,150
Median # of Analysts	0	1	4	6	14

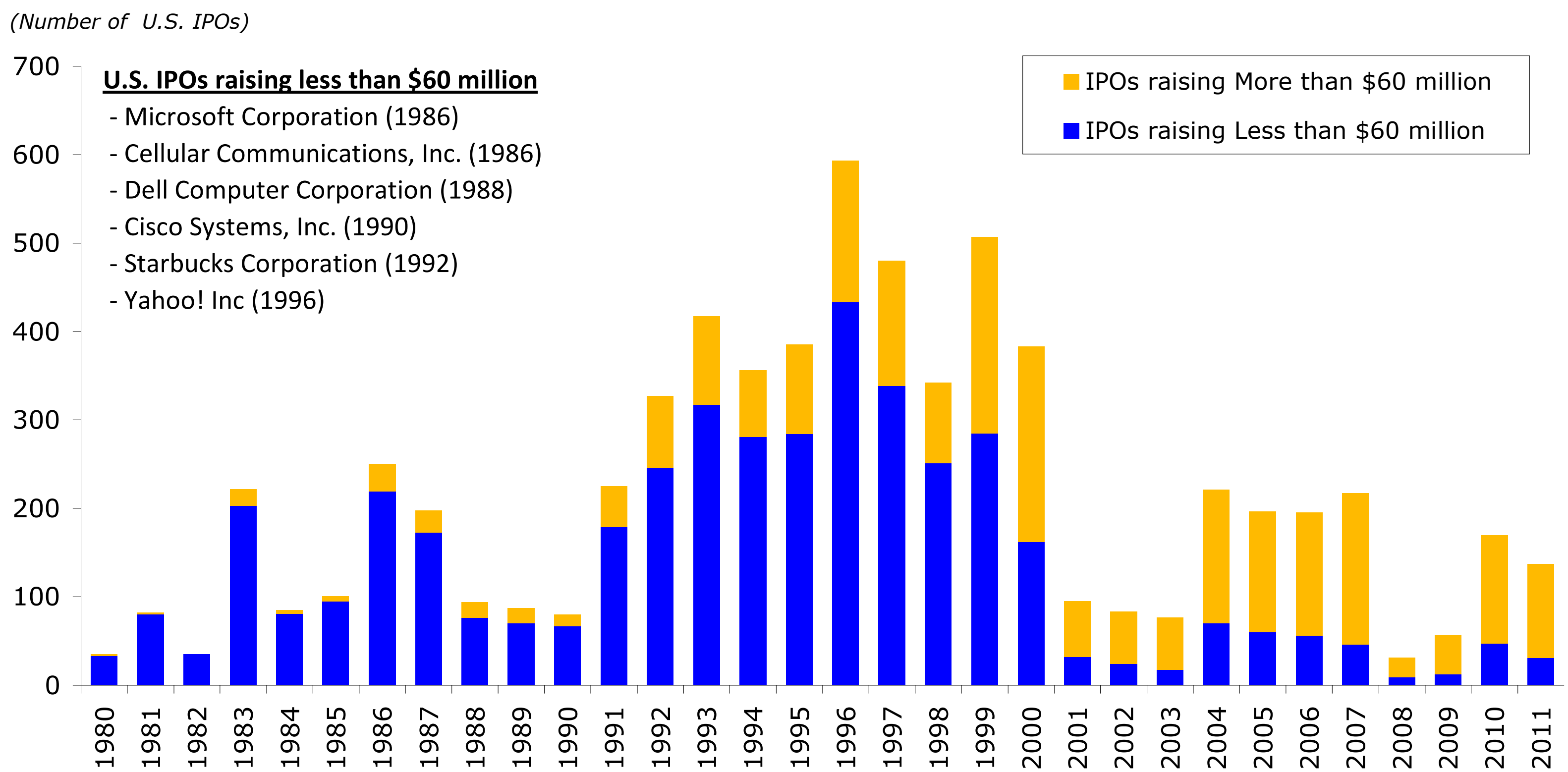
Source: Keating Investments. "The JOBS Act: Shifting into Gear and Accelerating Up the IPO On-Ramp" by Timothy J. Keating, May 2012.
Note: Information as of December 31, 2011.

II. Decline in "Small IPOs" on U.S. Exchanges

Over the past fifteen years, there has been a dramatic decline in "Small IPOs", or IPO transactions raising less than $60 million in proceeds, in the U.S. From 1980 to 2000, these transactions accounted for 74% of total U.S. IPO activity and included financings for many technology sector pioneers like Microsoft and Cisco. Over the past five years, these transactions accounted for only 24% of U.S. IPO activity.

To give you an example, I would like to turn back to 1986 when a company called Cellular Communications, Inc. was going public. Cellular Communications, Inc. was a company with a strong belief that cellular technology would grow and provide a better way for people to connect and communicate with one another. This was far from mainstream thinking at the time. Founded by my friend and now colleague, George Blumenthal of Cleveland Ohio, Cellular Communications Inc. needed capital in order to stay afloat and explore growth. Through their IPO, the company raised only $25 million. But over the years, Cellular Communications, Inc. grew as a public company with the explosion in the use of cellular technology and created a number of jobs along the way. They funded their growth primarily by way of the public equity markets with clear support from market makers and research firms that helped them tell their story to investors. Today, no firm will do a $25 million IPO as it will likely only lead to another illiquid small cap stock.

The chart on the following page shows U.S. IPO activity over the past three decades and the significant decline that has occurred in "Small IPOs".

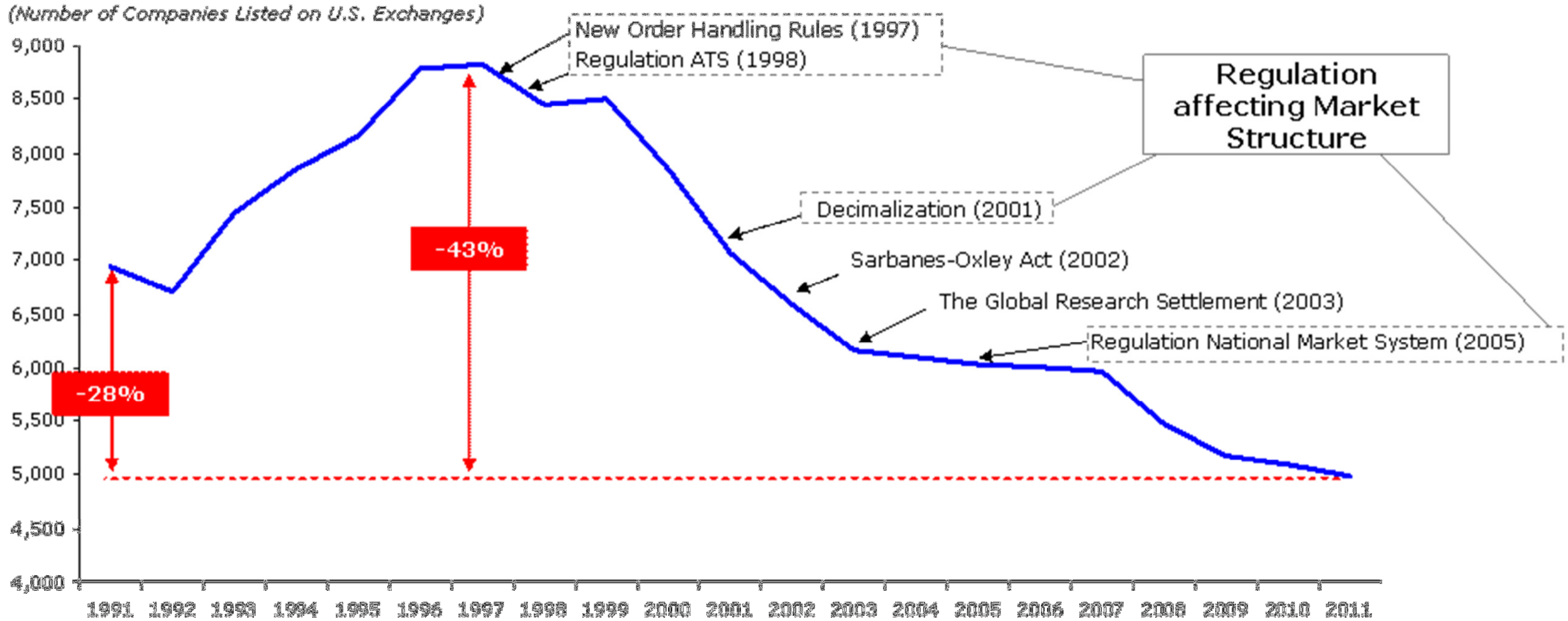


Source: Thomson Reuters SDC Platinum and Grant Thornton.

IPO data excludes REITs, closed-end funds, SPACs/ blank check companies and LPs. Excludes transactions with proceeds less than $5 million.

III. The Decline in Companies Listed on U.S. Exchanges

Over the past twenty years, the number of companies listed on U.S.-based exchanges has declined by 28%. Compared to its peak in the late 1990s, listings are down by over 40%. This trend has corresponded with a period of increased financial markets regulation, including certain regulations affecting market structure.



Source: World Federation of Exchanges. "A Wake-Up Call for America" by David Weild and Edward Kim, November 2009.

IV. Number of Companies Listed by Exchange Country

While the United States' exchanges have lost nearly 30% of its listings over the past twenty years, exchanges across the rest of the world have seen a steady increase in listing activity. This is the case for both exchanges located in emerging markets, such as Hong Kong, as well as exchanges located in more developed regions, including London and Tokyo.

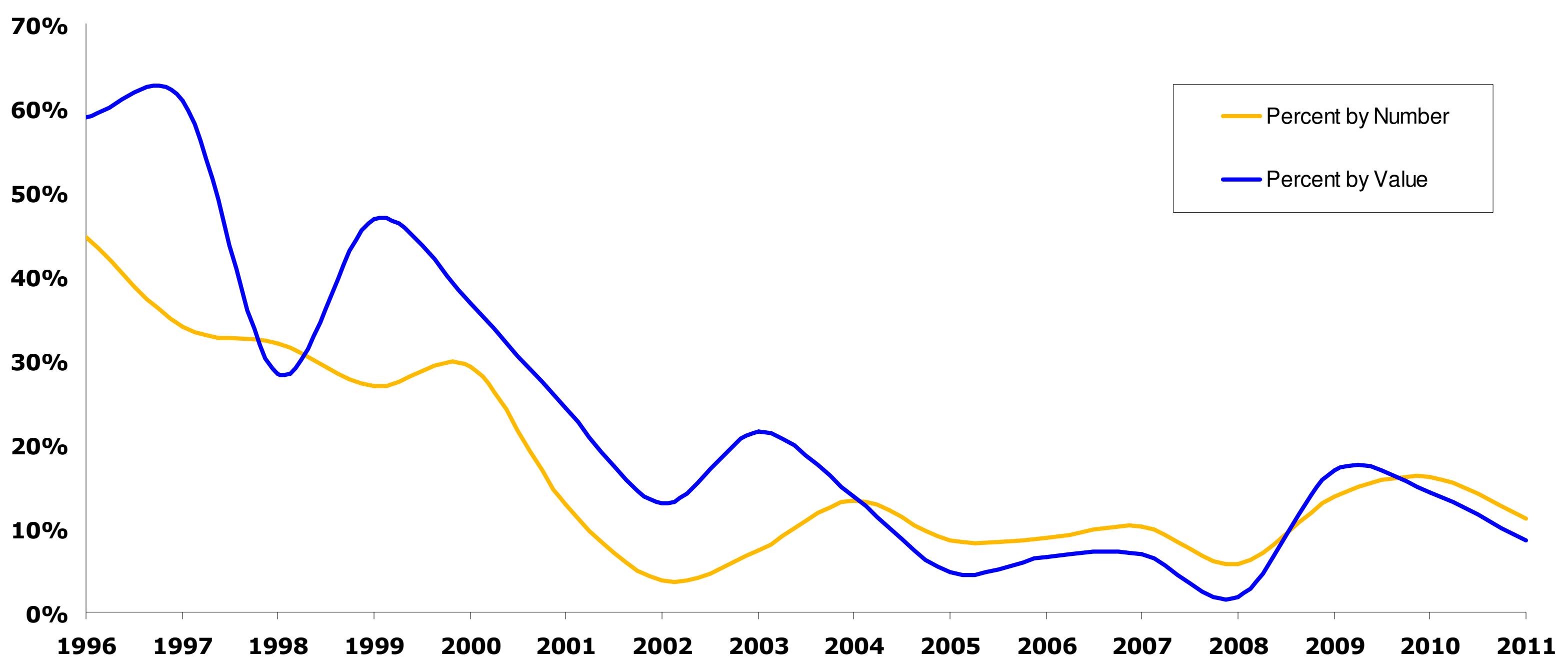
Number of Listings			% Change	Number of Listings		% Change
	1991	**2011**		**1997**	**2011**	
United States	**6,943**	**4,988**	***(28%)***	**8,823**	**4,988**	***(43%)***
Australia	1,005	2,079	*107%*	1,219	2,079	*71%*
Borsa Italiana	267	328	*23%*	239	328	*37%*
Deutsche Börse	NA	746	*NA*	613	746	*22%*
Hong Kong	299	1,413	*373%*	583	1,413	*142%*
London	2,572	2,886	*12%*	2,513	2,886	*15%*
Tokyo	1,764	2,291	*30%*	1,865	2,291	*23%*

Source: World Federation of Exchanges. "A Wake-Up Call for America" by David Weild and Edward Kim, November 2009.

V. The U.S.'s share of Global IPOs

The U.S.'s share of Global IPOs, or IPOs completed by foreign companies outside their home country, has decreased dramatically over the past fifteen years. In 2011, 22 foreign issuers listed on U.S. exchanges, representing 11% of total Global IPOs. Fifteen years ago, the U.S. captured a 45% share of these listings.

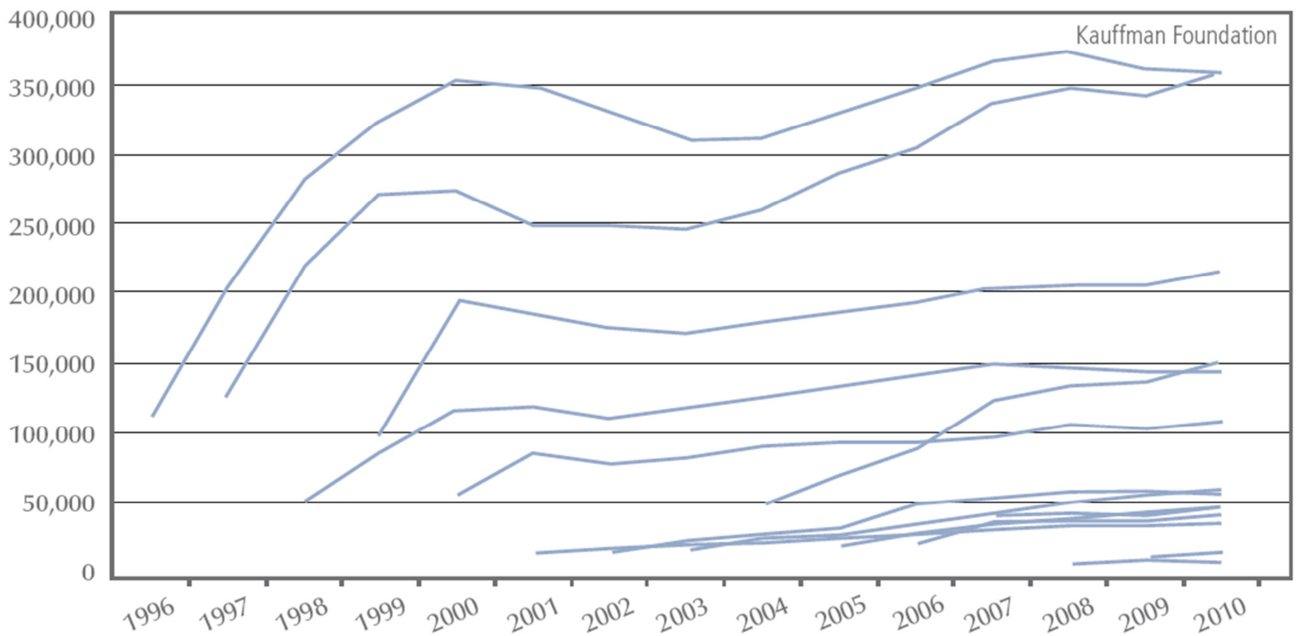
(U.S.'s share of Global IPOs)



Source: Committee on Capital Markets Regulation. Dealogic.

VI. Growth Company IPOs and Employment Growth

Growth companies are actively seeking to develop products and services that can change, enhance or positively disrupt whole sections of our economy and, while they deploy their vision, in more cases than not, they are significant creators of long-term private sector jobs. The figure below shows cumulative employment at the time of IPO and post-IPO across all growth companies that underwent IPOs in the U.S. for each year during the fifteen year period ended 2010.

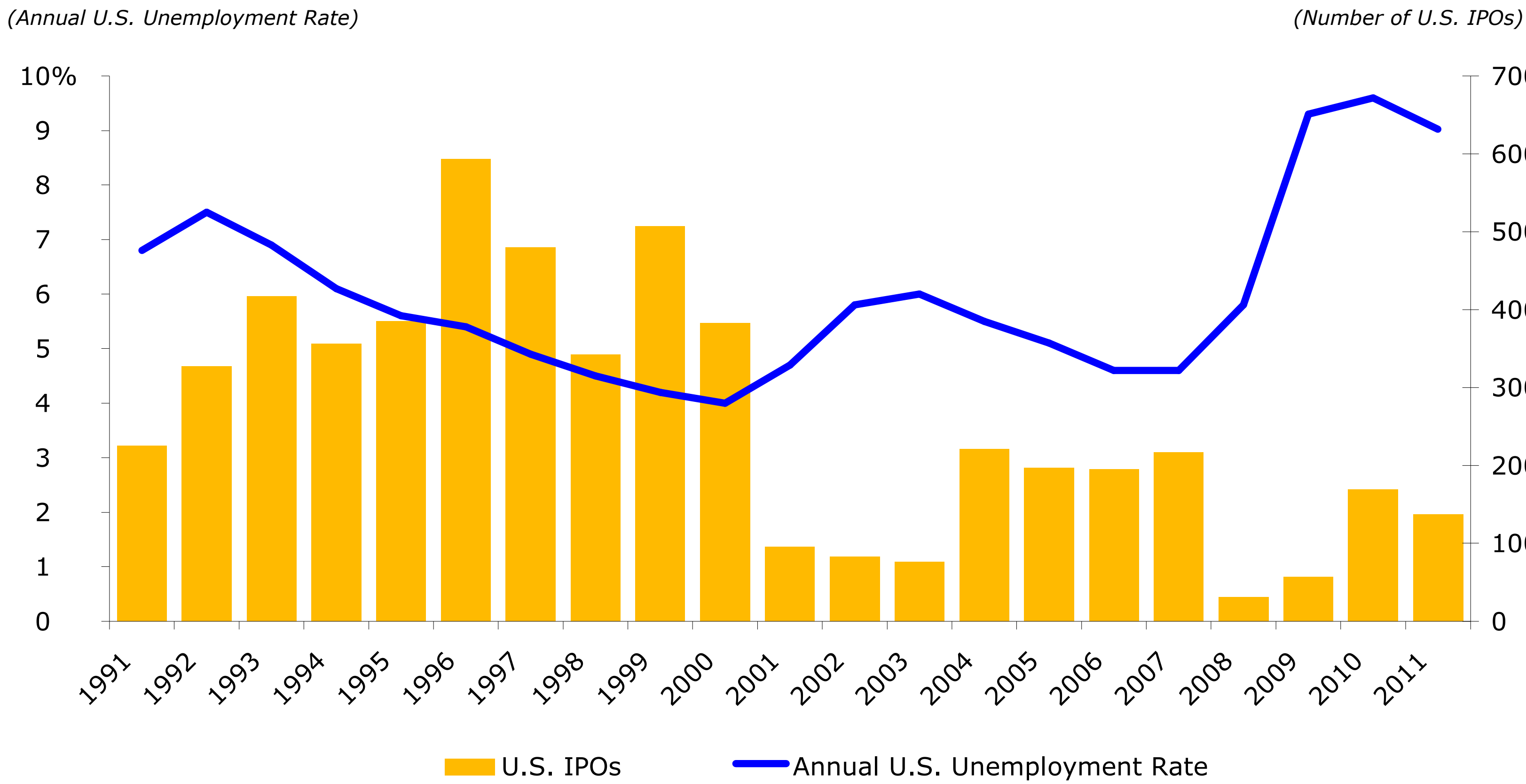


Source: The Kauffman Foundation.

Note: Growth companies, defined as domestic operating companies less than 30 years old that are not spinoffs, rollups, buyouts or demutualizations, account for 1,700 of the 2,766 companies that went public during the study period.

VII. A Depressed IPO Market Contributes to Increased Unemployment

Emerging growth companies are important job creators in our economy. Historically, U.S. unemployment has risen during periods coinciding with depressed IPO markets.



Source: Thomson Reuters SDC Platinum, Grant Thornton and U.S. Department of Labor.
IPO data excludes REITs, closed-end funds, SPACs/ blank check companies and LPs. Excludes transactions with proceeds less than $5 million.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Jeffrey Solomon	Cowen and Company, LLC
3. Business Address and telephone number: 599 Lexington Avenue, New York, NY 10022 212-845-7917	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☑ No	☐ Yes ☑ No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
7. Signature:	

Please attach a copy of this form to your written testimony.