DECIMALIZATION ROUNDTABLE
U.S. SECURITIES AND EXCHANGE COMMISSION
FEBRUARY 5, 2013

TESTIMONY OF JEFFREY M. SOLOMON
CHIEF EXECUTIVE OFFICER
COWEN AND COMPANY

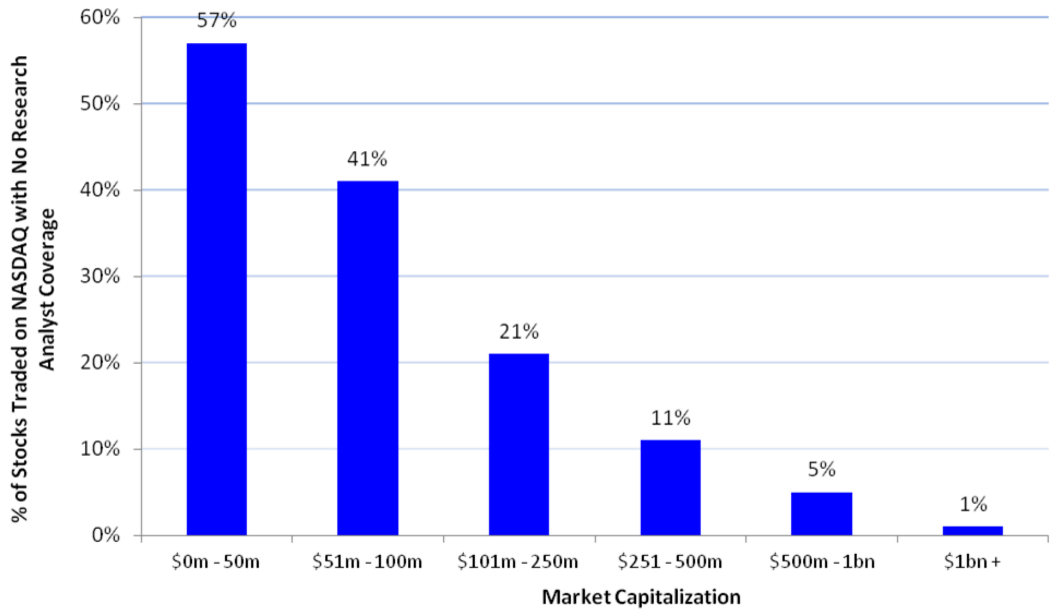
Introduction

The United States has been the single greatest market for capital formation over the past century. Our market structure and regulatory framework has enabled countless growth oriented companies to emerge as global market leaders by utilizing the equity capital markets to fund their growth through access to capital. However, over the past decade, due in part to difficult equity market structure, the IPO engine that has fueled America's global economic dominance has slowed tremendously. The good news is that it is not too late to make regulatory changes to the equity markets that will make them more conducive to the fundamental long term investor who is really the bedrock of capital formation in the United States. In short, we are recommending that the SEC initiate a pilot program that widens the bid/offer spreads for smaller capitalization stocks, thereby fostering a healthy trading eco-system that both benefits investors and creates reasonable economics necessary for investment firms to ensure that emerging growth companies find the necessary trading liquidity to return to the equity capital markets.

Today's roundtable is an important first step to allow market participants to suggest plans for an SEC led pilot program to test new measures for trading in small capitalization stocks, and trading, broadly speaking.

Current Market Structure Challenges

As a growth bank, Cowen and Company is an active participant in the capital markets to finance and support small, entrepreneurial and dynamic companies. However, our ability to support these companies has been affected by market structure. For example, decimalization has significantly reduced the economic incentive for Wall Street firms to support trading in small capitalization stocks. As a result, over the past decade, there has been a significant decline in research provided on these companies.



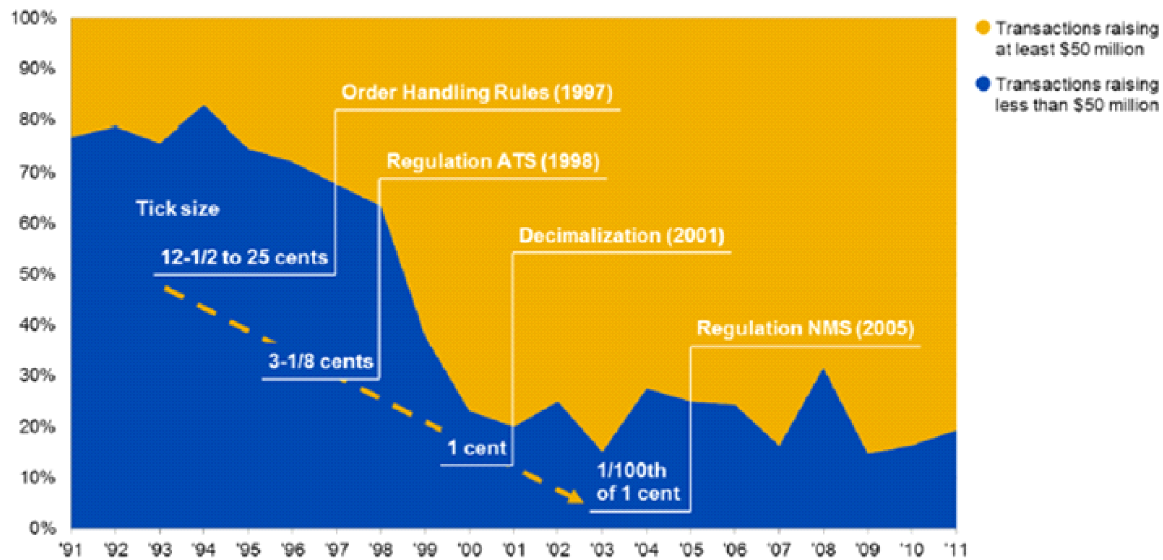
Median # of Analysts	0	1	3	4	7	13

Source: Bloomberg, as of 12/31/2012

Without the ability to generate adequate commissions trading in small capitalization stocks, most investment banks cannot afford to hire and retain research analysts to provide fundamental research on these stocks. As a result, we have seen a significant reduction of independent information for fundamental investors who benefit from having quality research on small capitalization stocks when making investment decisions. Investors have all but abandoned smaller stocks and instead have crowded into the largest and most liquid securities.

Decimalization, in conjunction with Reg NMS, has created a deeply fragmented market where institutional and retail customers alike have found it difficult to engage in reasonable price discovery as buyers and sellers of stocks have been radically dispersed. Limiting the number of increments at which a stock can trade will force buyers and sellers to engage with each other at fewer increments, bringing together or aggregating volume and depth necessary to create fundamental liquidity in the market. If the SEC allows for a pilot program to test the markets with increased tick increments for trading in small capitalization stocks, then firms like ours will find it economically feasible to begin writing research on small capitalization stocks again, which will in turn, create fundamental trading liquidity necessary to foster capital formation needed to promote private sector job growth from emerging growth companies.

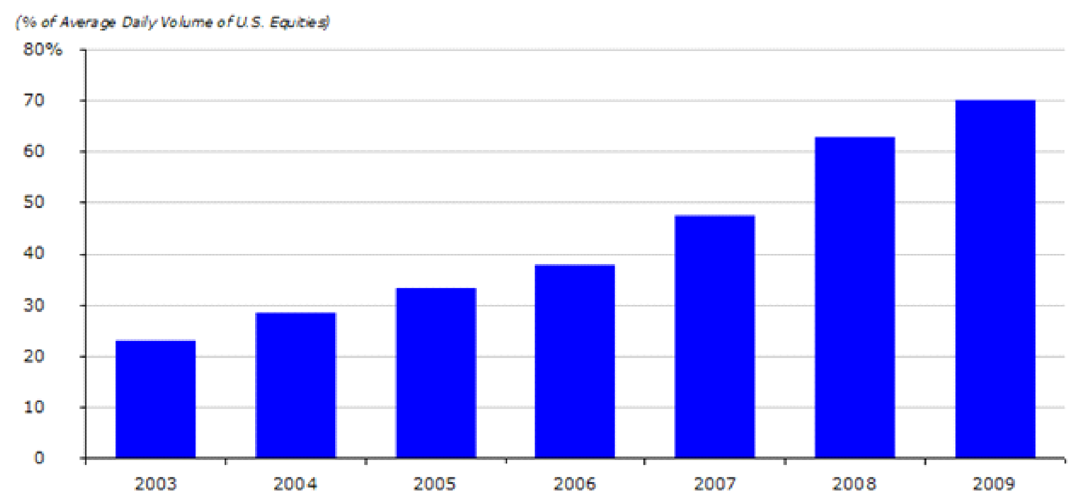
Smaller tick sizes undermined U.S. small-company IPOs



Sources: Grant Thornton LLP, Capital Markets Advisory Partners, Dealogic
Data includes corporate IPOs as of Dec. 31, 2011, excluding funds, REITs, SPACs and LPs

In an attempt to create sustainable business models for equity markets, many Wall Street firms have increasingly developed electronic trading models to reduce their costs to provide execution services. While there have been positive trading cost reductions over the past decade, especially in large capitalization stocks, many firms are still having difficulty justifying their cost structures. As a result, many have developed dark pools and other alternative trading venues that cater to more predatory trading firms that have little or no fundamental view on stocks. These predatory investors drive vast quantities of volume in order to generate enough revenues for Wall Street firms to pay for the costly infrastructures needed to process equity trades at thin margins. It is critical to understand that there is a big difference between fundamental buyers and fast traders that are simply looking to flip stocks for micro increments in nanosecond time frames. Predatory traders largely trade in a small set of highly liquid, large capitalization stocks which we see driving trading volumes today. This dynamic is not particularly relevant to the markets for smaller capitalization stocks. By increasing tick increments only for smaller capitalization companies, we believe that the markets will benefit from leveling the playing field with fast traders by bringing back fundamental investors who will benefit from market depth and care a lot less about fast trading to capture economic returns.

High-frequency trading firms as a Percentage of average daily volume in U.S. equities



Source: "A Wake-Up Call for America" by David Weild and Edward Kim, November 2009. AITE Group.

Moreover, the SEC should also explore eliminating the rebate structure for small capitalization stocks that is in place for electronic venues. The "maker/taker" model induces economic activity like fast trading where the price of purchase or sale is actually secondary to the amount that the executing firm/investor receives as a rebate. It is precisely this kind of economic incentive that induces potentially predatory behavior from fast traders that have little or no interest in the fundamental valuation of a company. It will also go a long way to limiting the likelihood of another "flash crash" by making it less economically attractive to fast trade small capitalization stocks.

<u>Recommendations</u>

In thinking about a pilot program, there are a number of factors the SEC should consider in order to make it successful:

1. Make the pilot program last long enough to allow for meaningful investment in fundamental research. At Cowen, we would recommend a seven year minimum. It will take time for Wall Street firms to ramp up their cost structure to provide research so we would not expect to see significant changes to the IPO market for at least three years.

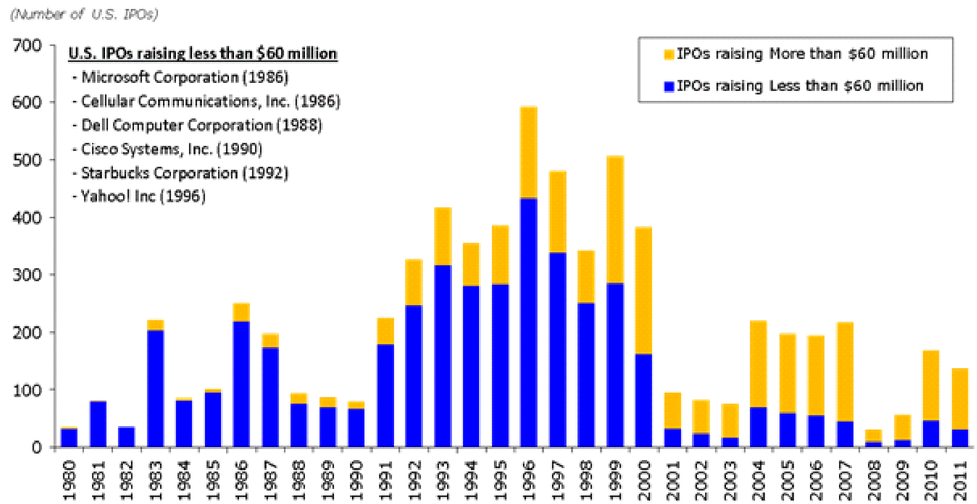
2. For the selected group of small capitalization stocks, do not allow for trading in between the National Best Bid and Offer (NBBO). A wider tick increment means that trades can only be executed at that increment even if it is traded on an alternative trading system. If this is not clearly established, then the pilot program will not be successful at all.

3. Limit the number of choices that an issuer can choose as the minimum increment and ensure that those increments are round numbers. $0.05, $0.10, $0.20 are more than enough. Markets and investors like simplicity and they like round numbers. The entire goal is to drive investors to discreet increments in order to make the trade. The more options available, the more complex and the less impactful the pilot program will be.

We have spoken to a number of buy side clients, other sell side firms as well as those representing the interests of retail investors and there is widespread agreement that the equity markets are not functioning in a way that is conducive to either long term wealth creation for investors or bringing companies public. We believe in taking the appropriate steps to amend the current system, and appreciate the opportunity to participate in the SEC's roundtable discussion on these matters.

<u>Conclusion</u>

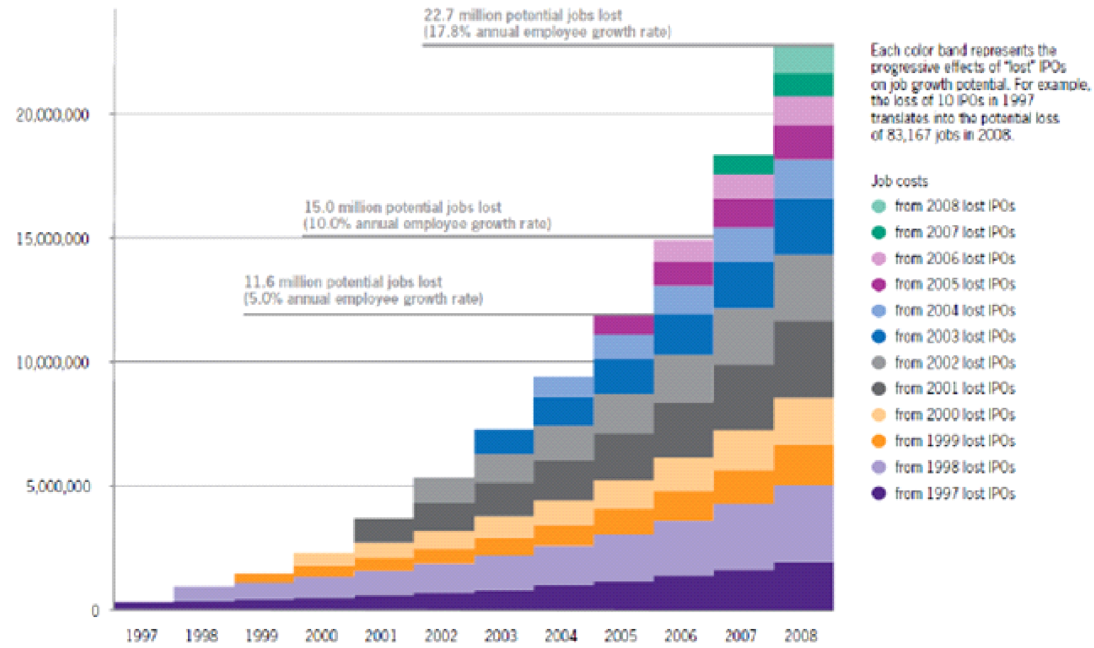
Bringing back single stock liquidity with solid, fundamentally oriented investors will significantly improve the market dynamics necessary to take smaller companies public – reversing a trend that has severely affected capital formation and public company growth in the United States.



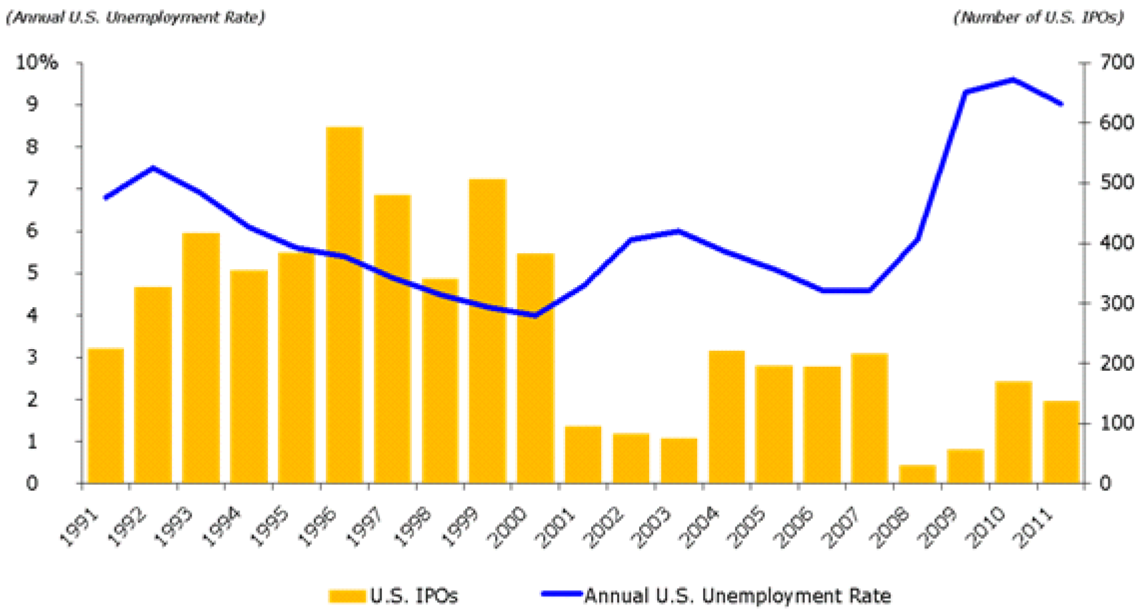
Source: Thomson Reuters SDC Platinum and Grant Thornton.
IPO data excludes REITs, closed-end funds, SPACs/ blank check companies and LPs. Excludes transactions with proceeds less than $5 million.

It is fundamental investors, both at the retail and institutional levels, which make up the investor base that buys IPO's and follow on equity offerings which support capital formation and job creation in the country. Bringing them back to the markets will enable many more emerging growth companies to consider going public to fund the growth of their businesses. When emerging growth companies raise capital, they hire people. Thus, bringing fundamentally oriented investors back into the equity markets will enable the United States to promote significant private sector job growth at a time when the overall economic growth of the United States is challenged.

Calculations based on actual 1996 IPO levels of 803 and number of employees at IPO of 1,372.



Source: "A Wake-Up Call for America" by David Weild and Edward Kim, November 2009, Global Insight (study cited by NVCA in its "4-Pillar Plan to Restore Liquidity in the US Venture Capital Industry").



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.

Jeffrey M. Solomon
Chief Executive Officer, Cowen and Company
Director, Cowen Group

Jeffrey Solomon is Chief Executive Officer of Cowen and Company, a Cowen Group company, and a Director of Cowen Group. Mr. Solomon is responsible for overseeing all of Cowen and Company's businesses, including Investment Banking, Capital Markets, Sales & Trading and Research.

Previously, Mr. Solomon served as Cowen Group's Chief Operating Officer and Head of Investment Banking at Cowen and Company. Mr. Solomon joined Ramius, Cowen Group's investment management division, when it was founded in 1994 and was responsible for the development, management and oversight of a number of the investment strategies employed by Ramius.

From 1991 to 1994, Mr. Solomon was at Republic New York Securities Corporation, the brokerage affiliate of Republic National Bank, now part of the HSBC Group, where he was the firm's Chief Administrative Officer. Prior to Republic, Mr. Solomon was in the Mergers and Acquisitions Group at Shearson Lehman Brothers.

Currently, Mr. Solomon is a member of the Committee on Capital Markets Regulation. He is also on the Board of Directors of NuGo Nutrition, the manufacturer of NuGo Nutrition Bars.

Mr. Solomon graduated from the University of Pennsylvania in 1988 with a B.A. in Economics.

About Cowen and Company:

Cowen and Company, part of Cowen Group, Inc. (NASDAQ: COWN), offers comprehensive investment banking services, including equity and convertible debt financings, private placements of equity and debt, restricted security sales, mergers and acquisitions advisory services including strategic alliances and joint ventures. In addition, Cowen and Company offers clients access to world-class research, as well as institutional sales and trading services.

Drawing on a depth of research and industry knowledge, Cowen and Company specializes in key areas of growth in our economy. Industry sector expertise includes Health Care, Technology, Media & Telecommunications, Consumer, and Aerospace & Defense. In addition, Cowen and Company offers extensive and focused after market trading services as a leading market maker in its target sectors.

While its principal product is knowledge, meeting the demands of clients is the firm’s first order of business through uncompromising service, time-honored ethics, and a dedication to helping clients capitalize on change.