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COWEN GROUP

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Chairman Joseph Dear
Investor Advisory Committee
United States Securities and Exchange Commission
100 F Street
Washington, DC 20549

Re: Recommendations to the Investor Advisory Committee by its Market Structure Subcommittee regarding Decimalization and Tick Size

Dear Chairman Dear:

The Market Structure Subcommittee (the "Subcommittee") of the SEC's Investor Advisory Committee (the "Committee") recently submitted draft documents containing recommendations on Decimalization and Tick Size for consideration at the Committee's meeting on January 31, 2014. As Co-Chairs of the Equity Capital Formation Task Force, we are pleased the Committee is engaged in these important discussions. It is clear from the recommendations posted to the SEC's website that the Committee is contemplating market structure improvements that attempt to balance the needs of investor protection and promote capital formation for small companies in order to foster improved private sector job growth in America. In President Obama's recent weekly address to the nation, he said 2014 could be a breakthrough year for creating good paying jobs lost to overseas competitors. A pilot program testing a market structure for small-cap companies that fosters liquidity and capital formation necessary to promote job growth is a strong start in this direction.

The purpose of this letter is to urge the Committee, and ultimately the SEC Commissioners, to adopt the Subcommittee's *Alternative* Recommendation #1, which calls for a pilot program for small-cap public companies to trade at wider spreads and limited increments. *Alternative* Recommendation #1 offers a clear path to testing market structure in support of small company capital formation and aligns with the interests of individual investors, the largest owners of small-cap stocks. On the other hand, the Subcommittee's Recommendation #1, which essentially is a do nothing approach, is simply not a viable alternative to solve the Core Problem.

The Core Problem

It is well documented that a robust market for equity capital formation benefits private sector job growth in America. Not only has there been a substantial decline in small company IPOs over the past decade and a half, but many small-cap public companies have also suffered from a lack of capital formation which has inhibited job creation, innovation and investment opportunities stemming from startups and small companies.

At the center of this small-cap capital formation issue is the *lack of trading liquidity* in many publicly-traded small-cap companies. Under existing market structure rules, including penny increments, the lack of trading liquidity in this segment of the market has made it challenging for meaningful institutional investor ownership. Without institutional investors, which are the primary source of trading liquidity, capital formation for small-cap companies has declined to levels well below historical levels. However, a pilot program, such as outlined in *Alternative* Recommendation #1, is designed to realistically enable institutional investors to return to the small-cap market. While the size of this market segment is small (companies under $750 million in market capitalization represent only 2% of US total equity trading volume), this segment is a critical component of the US economic ecosystem, an engine for company and job creation. Fixing the core illiquidity problem could have an enormous impact. To be clear, a pilot program *does not* affect the remaining 98% of the market and, therefore, leaves intact the benefits that investors have enjoyed since the advent of decimalization.

Illiquidity Impacts the Entire Ecosystem

This is not just a problem that affects small companies and institutional investors. Very importantly, illiquidity also adversely impacts ***individual*** investors in a very real way since they comprise the vast majority of ownership in small-cap stocks. Studies have shown that stocks achieve greater valuations with the presence of institutional investment. Improving the liquidity in small-cap companies through revised market structure rules will benefit small-cap companies by giving them a greater ability to raise capital to grow their businesses. Moreover, and very importantly, it will also provide ***individual*** investors in those companies a way to benefit from long-term price appreciation that comes with renewed institutional investor participation. In short, *Alternative* Recommendation #1 rightly suggests that a pilot program will demonstrate that individual investors will benefit from long-term price appreciation as well.

A Pilot Program Is a Fair and Targeted Solution

A pilot program offers a fair process to test a market structure that we believe will have a positive impact on the US economy, individual investors, institutional investors and small companies. *Alternative* Recommendation #1 provides several suggested guidelines to ensure clear measurements of success or failure in a pilot implementation. This includes the suggestion that the pilot programs be operational for a sufficient length of time to truly validate their long-term success or failure. The suggested guidelines are consistent with the views presented to the US Treasury in a November 2013 report, "From the On-Ramp to the Freeway: Refueling Job Creation and Growth by Reconnecting Investors with Small-Cap Companies" by the Equity Capital Formation (ECF) Task Force. The ECF Task Force is a group comprised of professionals from across America's startup and small-cap company ecosystem.

Equity markets are dynamic and complex. Changes to market practices should be considered carefully. A pilot program aimed at small-cap companies would be a highly targeted effort affecting only 2% of the market. If we can solve the small company capital formation problem, as opposed to doing nothing, we will have found a path to creating jobs, driving innovation and providing more positive investment opportunities for both individual and institutional investors.

We urge the Committee and the SEC to adopt the Subcommittee's *Alternative* Recommendation #1.

Respectfully submitted,

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Co-Chair, ECF Task Force	Co-Chair, ECF Task Force

cc: Honorable Mary Jo White, Chair
Honorable Luis A, Aguilar, Commissioner
Honorable Daniel M. Gallagher, Commissioner
Honorable Kara M. Stein, Commissioner
Honorable Michael S. Piwowar, Commissioner
Lona Nallengara, Chief of Staff
John Ramsay, Acting Director of SEC's Division of Trading and Markets