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United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350

May 18, 2006

The Honorable Christopher Cox
Chairman
U.S. Securities and Exchange Commission
Room 6100
Washington, DC 20549

Dear Chairman Cox:

A flourishing initial public offerings (IPO) market is essential for the short and long-term vitality of the U.S. economy. IPOs enable innovative companies to finance hiring, advanced research, and the manufacturing and marketing of critical new technologies, products, and services. In turn, these investments and innovations spur economic growth, create new industries, and continuously renew and invigorate the U.S. economy.

Recently, former Federal Reserve Chairman Alan Greenspan, who has expressed support for the Sarbanes-Oxley Act of 2002 (the Act), stated that he is “disturbed by the fact that initial public offerings have moved away from the U.S. - and to a large extent have moved to London.” Mr. Greenspan’s remarks highlight a growing trend of small U.S. companies undertaking IPOs overseas, rather than remaining in the U.S., to raise capital. Many of these small inventive companies cite the high cost of complying with the Act as the major factor keeping them from growing through a U.S.-based IPO.

Without a competitive domestic IPO market, many small U.S. firms may be forced to curtail their research, development, and job creation activities unless they seek IPO financing abroad. A shift towards foreign IPO financing would represent a significant and detrimental loss to our corporate and financial sectors’ ability to create and capitalize the world’s best and brightest companies.

As European and worldwide stock exchanges evolve, it is necessary to carefully consider the U.S. role in international financial markets, and the effect this role will have on our small businesses’ ability to contribute to domestic innovation and long term growth. When the Act was enacted some observers speculated that foreign exchanges would eventually be governed by similar “gold standard” securities regulations. However, almost 4 years later, it appears that many foreign exchange regulators are moving towards standards similar to those governing the London Exchange’s market for small businesses – the Alternative Investment Market (AIM).

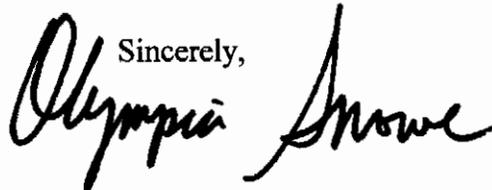
This year, Ernst & Young, the Government Accountability Office, and PriceWaterhouse-Coopers (PWC) have published reports highlighting the decreasing number of U.S. IPOs. Ernst & Young wrote that “the Sarbanes-Oxley legislation in the wake of several high-profile corporate scandals caused a major shift in this (IPO) landscape, with repercussions all around the world.” The GAO’s study into the effects of the Act on small businesses, which I requested, found that, “from 1999 through 2004, IPOs by companies with revenues of \$25 million or less decreased substantially from 70 percent of all IPOs in 1999 to about 46 percent in 2004.” PWC’s research shows that the number of U.S. IPOs fell from 236 offerings in 2004 to 205 offerings in 2005. PWC further observed that last year Europe raised, “more new money from IPOs than the U.S. and Greater China combined.”

Today, AIM is successfully persuading small U.S. companies to take their stocks public in the United Kingdom. In 2005, 19 U.S. companies raised \$2.126 million worth of IPO capital through AIM in London. This year, AIM will hold seminars on the U.S. East Coast, West Coast, and in the Midwest for American companies looking for alternatives to the costs associated with a U.S. based IPO. AIM, which touts itself as the “world’s most successful market for smaller, growing companies,” is also working with U.S. venture capitalists and directly contacting small companies that are considering going public to inform them about the benefits of floating an IPO in London instead of in the U.S.

I am concerned about the decline in U.S.-based IPOs, and the long term effects this could have on entrepreneurship. These concerns, and the high cost of complying with the Act, have prompted me to ask the Securities and Exchange Commission a series of questions regarding the U.S. role in changing domestic and international IPO markets:

1. What advantages do U.S. markets offer small businesses considering an IPO and why should they raise capital in the U.S. stock markets instead of overseas?
2. What can and should be done to encourage U.S. companies, especially smaller U.S. companies, to float their IPOs domestically instead of overseas?
3. What can be done to help the U.S. maintain its historical dominance and leadership in the IPO market?
4. What is the SEC doing to help small businesses prepare to meet the regulatory requirements of an IPO?
5. How will the U.S. economy and our competitiveness be effected if more small innovative companies continue to pursue IPOs overseas in order to avoid Sarbanes-Oxley requirements?
6. How do the U.S. IPO regulatory requirements for small publically traded companies compare to those of other major foreign exchanges?

I look forward to working with the SEC on this vital issue effecting our small domestic companies' abilities to innovate, compete and grow. I believe that the answers to these questions are important to small companies and to the U.S. economy's overall strength. Finally, I commend you for yesterday's announcement that the SEC will undertake a series of actions to improve the internal control requirements in Section 404 of the Act and look forward to working with you to make addition improvements on behalf of small businesses. If you have any questions or need any additional information, please do not hesitate to call me or have your staff contact Wes Coulam, Staff Director of the Committee, at (202) 224-5175.

Sincerely,


OLYMPIA J. SNOWE
Chair