

Says Oversight of Political Intelligence Industry Must Be Part of STOCK Act

WASHINGTON – Congresswoman Louise Slaughter (NY-28), Ranking Member of the House Rules Committee, today urged members of the Senate Homeland Security and Government Oversight committee not to remove a key piece of her Stop Trading on Congressional Knowledge Act, or STOCK Act, in its Senate counterpart which would finally shed light on the lurking political intelligence industry that has further entangled Wall Street with Capitol Hill. The bill is scheduled for a markup in that committee tomorrow.

"I understand that the Senate Chairman's mark of the STOCK Act replaces the political intelligence registration requirement with a simple study of the political intelligence industry. Let me tell you, we don't need a study to understand this industry; we need transparency and regulation so that the public, Members, staff, and regulators know who is speaking to Congress to gain an advantage on the financial markets" said Slaughter. "I encourage the Senate not to remove such a necessary piece of this legislation."

Slaughter has been a champion of the STOCK Act since 2006 but before [the 60 Minutes piece](#) that ran on Sunday, November 13, the legislation only had only 9 cosponsors. Support for the legislation has ballooned and as of this morning, the STOCK Act has gained 229 bipartisan co-sponsors including 78 Republicans in the House and for the first time has companion legislation in the Senate

Slaughter has long said that having political intelligence firms register the same way lobbyists do is an essential part of the bill. The political intelligence industry started out as a handful of firms in the 1970s but have grown into an estimated \$100 million industry.

On December 6, Slaughter testified to the House Financial Services Committee and made clear that transparency in the political intelligence industry is a necessary piece of the STOCK Act going so far as to quote a website of a political intelligence firm bragging about "an additional layer of confidentiality" for their clients.

"Throughout our current economic crisis, and indeed since their creation in the 1970's, so called "political intelligence" firms have operated quietly in the background without any regulation or oversight. Recently, the size of this industry has grown considerably, bringing in an estimated \$100 million a year. These firms focus not on influencing Congress, but rather on using Congressional information to influence their clients' stock portfolios. For example, one political intelligence firm brazenly makes this concerning claim on their website, and I quote:

'Providing this service for clients who do not want their interest in an issue publicly known is an activity that does not need to be reported under the Lobbying Disclosure Act (LDA), thus providing an additional layer of confidentiality for our clients.'

"The STOCK Act does not ban political intelligence firms, but simply requires that the industry is as transparent as the lobbying industry."

Slaughter has championed the STOCK Act with Congressman Tim Walz (MN-01) and former Congressman Brian Baird from Washington State.

BACKGROUND

The Issue:

Day Trading

There have been reports that Members of Congress and Congressional staff may have been engaged in, or were engaged in, day trading of securities. Nonpublic information about current or upcoming congressional activities may be used, or may have been used, in some of these trading decisions. For example, the Wall Street Journal reported that from 1999-2000 the Deputy Chief of Staff to then Majority Leader Tom Delay bought and sold hundreds of stocks

from his congressional office computer. This information has been confirmed by other Delay aides and in year-end financial disclosure forms.

Political Intelligence

According to additional accounts, there is reason to believe some Members of Congress or their staff may have shared nonpublic information about current or upcoming Congressional activities with individuals outside of Congress working for political intelligence firms. These reports indicate that these individuals or their firms may have used this for investment purposes.

The increase in the number of political intelligence firms suggests that the leaking of nonpublic congressional information occurs regularly. What started out as a handful of firms in the 1970s, political intelligence firms have grown into an industry that brings in an estimated \$100 million a year.

What the STOCK Act Does:

- Prohibits Members and employees of Congress from buying or selling securities, swaps, security based swaps, or commodity futures based on nonpublic information they obtain because of their status;
- Prohibits Executive Branch employees from buying or selling securities, swaps, security based swaps, or commodity futures based on nonpublic information they obtain because of their status;
- Prohibits those outside Congress from buying or selling securities, swaps, security based swaps, or commodity futures based on nonpublic information obtained from within Congress or the Executive Branch;
- Prohibits Members and employees of Congress from disclosing any non-public information about any pending or prospective legislative action for investment purposes;
- Requires Members and employees of Congress to report the purchase, sale or exchange of any stock, bond, or commodity future transaction in excess of \$1,000 within 90 days. Members and employees who choose to place their stock in holdings in blind trusts or mutual funds would be exempt from the reporting requirement; and,
- Requires firms that specialize in "political intelligence" and that obtain their information

directly from Congress to register with the House and Senate, much like lobbying firms are now required to do.

Why the STOCK Act is Needed:

There is no oversight authority on Congressional insider trading

Insider trading is the buying or selling of financial instruments on the basis of material, nonpublic information in violation of a duty of confidentiality – either to the issuing company or to the source of information. Under current law, Members of Congress and their staff do not owe a duty of confidentiality to Congress, and therefore are not liable for insider trading.

We need sunlight and transparency of the political intelligence industry

Political intelligence firms first appeared in the 1970s and have been on the rise in the past decade, but the industry remains relatively unknown because the firms are currently not required to register their clients or their earnings. By having these firms register with Congress along with lobbyists, the public will gain knowledge on who might be gaining an unfair advantage in the financial markets at the expense of the average financial investor.

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