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Contact: Craig Holman (202) 454-5182
Angela Bradbery (202) 588-7741

Insider Trading Is Illegal for the Rest of Us; It Should Be Unlawful for Congress as Well

Statement of Craig Holman, Government Affairs Lobbyist, Public Citizen

Note: A hearing on this matter is scheduled for 2 p.m. today in 2128 Rayburn by the Subcommittee on Oversight and Investigations of the House Financial Services Committee.

It's well known that insider trading is illegal. So the American public likely would be shocked to learn that it's perfectly legal for members of Congress, their staffs and other federal employees to profit from insider information gained in the course of their jobs.

That's why Public Citizen strongly supports legislation sponsored by Reps. Brian Baird (D-Wash.), Louise McIntosh Slaughter (D-N.Y.) and Tim Walz (D-Minn.) that would apply to government officials the same restrictions against insider trading that apply to the rest of us. The "Stop Trading on Congressional Knowledge Act" (H.R. 682) would prohibit members of Congress, executive officials and their staffs from using privileged information obtained through their official duties for personal gain. This legislation is critically important as the federal government increases its regulation and oversight of banks and financial services companies.

Currently, members of Congress, their staffs and other federal employees may obtain non-public information in the course of their official duties that sheds light on confidential information on the stocks and commodities markets and legally make investments based on that insider information. Lobbyists and "political intelligence consultants" have the opportunity to cash in on knowledge gained from federal officials and their staffs about the stock markets.

There is reason to fear that abuses may already be occurring. A 2004 study found that investment returns for senators were 25 percent higher than for average investors. And the most recent financial disclosure statements for members of Congress show an alarming trend of members investing in businesses and industries directly affected by Congress. A study released last week by the Center for Responsive Politics found that nearly one in four members invested in health care companies in 2007 and 2008, such as Merck, Pfizer and United Health, whose business activities are the subject of intense congressional scrutiny and whose business futures depend on pending congressional actions.

Whether members of Congress are in fact cashing in on insider information, or coincidence just makes it appear so, the damage to the integrity of the federal government is the same. The reality or appearance of congressional insider trading demands passage of H.R. 682.

With the federal government now assuming a larger role in financial services under the watchful eye of Congress, it is imperative that Congress act quickly to assure the nation that the government's involvement is solely in the public's interest.

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Public Citizen is a national, nonprofit consumer advocacy organization based in Washington, D.C.

1600 20th Street NW • Washington, DC 20009-1001 • (202) 588-1000 • www.citizen.org

215 Pennsylvania Ave SE • Washington, DC 20003-1155 • (202) 588-1000 • www.citizen.org