



November 23, 2011

The Honorable Scott Brown  
Ranking Member, Subcommittee on Federal Financial Management,  
Government Information, Federal Services & International Security  
U.S. Senate Committee on Homeland Security & Governmental Affairs  
359 Dirksen Senate Office Building  
Washington, DC 20510

Re: S.1871, the "Stop Trading on Congressional Knowledge Act" (STOCK Act)

Dear Senator Brown:

I am writing on behalf of Consumer Watchdog to express our support for S.1871, the Stop Trading on Congressional Knowledge or "STOCK" Act, to prohibit members of Congress from engaging in insider trading.

Consumer Watchdog is a nonpartisan, nonprofit organization that advocates for the interests of taxpayers and consumers. Consumer Watchdog has long supported strict rules to divorce the business of Congress, including legislative decision-making, from the financial interests of individual members of Congress.

Members of Congress should be free of even the appearance of a conflict of interest as they conduct the people's business.

Non-public information about markets or industries entrusted to members of Congress should not be used for personal enrichment. Insider trading is a serious abuse of public trust that harms democracy and the public's opinion of Congress. Barring members from personally profiting from such knowledge will eliminate one clear source of conflict.

The STOCK Act has the ability to help restore some of the faith that the American people have lost in Congress.

Studies have shown that investments by members of Congress consistently outperform the average. A study of stock investments in the U.S. Senate (Ziobrowski, Boyd, Cheng and Ziobrowski) concludes that a portfolio mimicking the purchases of U.S. Senators beats the market by 85 basis points per month, and sales outperform the market by 12 basis points per month. The difference in returns is statistically significant, at nearly one percent per month. An identical study of the U.S. House of Representatives finds that a portfolio mimicking purchases by members of the House outperforms the market by 55 basis points per month. These studies

suggest that members of Congress have a significant advantage when making investment choices, even when compared to corporate insiders.

The STOCK Act would require the SEC and CFTC to amend current definitions and rules barring insider trading to include the purchase or sale of financial instruments by a person possessing nonpublic information obtained by a member of Congress or the executive branch in the course of their work. It would level the playing field to ensure that members of Congress can no more benefit from insider knowledge about the status and health of a company or a market than a trader or banker can benefit from similar knowledge.

House and Senate ethics rules should be similarly amended, a critical provision to allow congressional ethics investigation and action in cases where violations might not attract the attention of financial regulators.

The bill would also require members of Congress to report securities transactions of \$1000 or more within 90 days, a significant improvement in transparency over current yearly reporting requirements.

It would also require political consultants that trade in the knowledge of securities and commodities markets to register as “political intelligence consultants.” Such registration can only lend additional transparency to what are now murky, and therefore suspect, transactions in the public eye.

Current law defines insider trading to apply only to corporate insiders. Expansion of this definition to require members of Congress to meet the same ethical standards is long overdue.

Consumer Watchdog supports S.1871 as an important tool to help ensure that our elected leaders are conducting business in the public interest, not for personal financial gain.

Sincerely,

A handwritten signature in black ink, appearing to read 'Carmen Balber', written in a cursive style.

Carmen Balber  
Washington, D.C. Director