



February 14, 2012

VIA FACSIMILE AND CERTIFIED MAIL

Chairman Jo Bonner
House Committee on Ethics
1015 Longworth House Office Building
Washington, DC 20515
Fax: (202) 225-7392

Chairman Barbara Boxer
United States Senate Select Committee on Ethics
220 Hart Building
United States Senate
Washington, DC 20510
Fax: (202) 224-7416

RE: Stock Trading and Political Intelligence Gathering by Congressional Staff

Dear Chairmen Bonner and Boxer:

We write on behalf of Cause of Action, an independent 501(c)(3) public interest group that uses public advocacy and legal reform strategies to ensure greater transparency in government and protect taxpayer interests and economic freedom.

Many news sources have focused on the potential for Members of Congress to use non-public information gathered on Capitol Hill to make illegal stock trades,¹ but the potential for wrongdoing by taxpayer-funded congressional staff has received comparatively little coverage. House and Senate staff have non-public information on the status and contents of legislation moving through Congress, including amendments that influence financial markets.² Because this information helps predict the short- and

¹ See Robert Pear, Jonathan Weisman, *Bill to Prohibit Insider Trading by Members of Congress Advances in Senate*, N.Y. TIMES, (Jan. 30, 2012), available at <http://www.nytimes.com/2012/01/31/us/politics/democratic-senators-to-push-buffett-rule.html>; *Capitol Crimes: Congress Considers Legislation to Limit its Own Insider Trading*, THE ECONOMIST, (Dec. 10, 2011), available at <http://www.economist.com/node/21541434>.

² *Id.*

long-term stock prices of America's companies, it provides congressional staff opportunities to profit from insider trading.³

Congress is currently considering passage of the Stop Trading on Congressional Knowledge (STOCK) Act to prevent insider trading and the use of "political intelligence" to profit in the stock market.⁴ However, Congress should also scrutinize past instances of misconduct by taxpayer-funded congressional staff.⁵

Insider Trading by Congressional Staff

According to the *Wall Street Journal*, between 2008 and 2009, "[a]t least 72 aides on both sides of the aisle traded shares of companies that their bosses help oversee"⁶ Although the article identified one suspicious trade by a congressional staffer working in Senator Harry Reid's office, numerous exchanges worthy of thorough investigation exist.

For example, a high-level staffer for the Senate Committee on Energy and Natural Resources admitted to dozens of stock and bond transactions in a 2010 financial disclosure.⁷ Many of the stocks she traded were of companies in industries directly overseen by the Senate Energy and Natural Resources Committee, including ConocoPhillips, Puget Energy Inc., 3M, Potomac Electric Power, Neenah Paper, and Union Pacific.⁸ Another staffer at the same committee engaged in over 50 trades during 2010.⁹ These trades were also of stock in companies whose industries are overseen by the committee, including Hawaii Electric Industries Company, Northwest Natural Gas Company, Portland General Electric Company, and 3M.¹⁰ Unfortunately, when staffers engage in frequent trading, the trades are unlikely to receive examination sufficient to ensure their legality.¹¹

The challenge posed by staffers owning stock in companies overseen by the committee they work for is not unique to the Senate Committee on Energy and Natural Resources. A senior staffer for the Senate Committee on Agriculture, Nutrition, and Forestry noted in his 2011 disclosure that he owned stock in the Altria Group and Phillip

³ See Brody Mullins, Tom McGinty, *Congressional Staffers Gain from Trading in Stocks*, WALL ST. J., (Oct. 11, 2010), available at <http://online.wsj.com/article/SB10001424052748703431604575522434188603198.html>.

⁴ STOP TRADING ON CONGRESSIONAL KNOWLEDGE ACT, H.R. 1148, 112th Cong. (2012).

⁵ Kevin Bogardus, *STOCK Act irks Wall St.'s tipsters*, THE HILL, (Feb. 6, 2012), available at <http://thehill.com/business-a-lobbying/209027-stock-act-spotlight-is-set-to-expose-wall-streets-tipsters>

⁶ *Supra* note 3.

⁷ [Redacted for privacy], United States Senate Financial Disclosure Report for Annual and Termination Reports at 3-11, (2010) (Encl. as "Exhibit A").

⁸ *Id.*

⁹ [Redacted for privacy], United States Senate Financial Disclosure Report for Annual and Termination Reports at 3-23, (2010) (Encl. as "Exhibit B").

¹⁰ *Id.*

¹¹ See Jonathan Macey, *Congress's Phony Insider Trading Reform*, WALL ST. J., (Dec. 13, 2011), available at <http://online.wsj.com/article/SB10001424052970203413304577088881987346976.html>.

Morris.¹² Both of these companies are directly overseen by the committee; Altria spent approximately \$11 million lobbying Congress in 2011.¹³

Similarly, when staffers own and trade in the stocks of companies directly influenced by official congressional action, it provides opportunities for illegal insider trading. For instance, one House Financial Services staffer, according to his 2008 financial disclosure, was paid \$363,141 by Fannie Mae and owned between \$350,000 and \$750,000 worth of Fannie Mae stock—even though the future of Fannie Mae and its day-to-day stock price during that time were highly dependent on the actions of the staffer's committee.¹⁴

Political Intelligence from Congressional Staff

The *Daily Caller* recently illustrated the importance of investigating relationships between government officials and publicly traded companies. The news site reported that a Department of Justice (DOJ) investigation into tax evasion by the National Rural Utilities Cooperative Finance Corporation (CFC) was compromised when two of the DOJ investigators accepted cash bribes from CFC.¹⁵ CFC received \$5.1 billion in taxpayer dollars between 2005 and 2010¹⁶ and it spends substantial amounts of money lobbying Congress through the Russell Group,¹⁷ which employs a former senior-level aide to House Speaker John Boehner.¹⁸ According to the Russell Group's 2011 lobbying reports, the former Boehner staffer lobbied Congress regarding the regulation of financial institutions, futures trading, securities, federal deposit insurance, and the Federal Reserve System.¹⁹

Lobbying activities by CFC subsidiaries may also merit examination. Whenever CFC receives grants from federal agencies, it is required by law to keep those funds separate and segregated from any monies used for political purposes, particularly federal lobbying.²⁰ But although CFC is a tax-exempt 501(c)(4) organization, it owns a number of for-profit subsidiaries, including the National Cooperative Services Corporation

¹² [Redacted for privacy], United States Senate Financial Disclosure Report for New Employee and Candidate Reports at 3, (2011) (Encl. as "Exhibit C").

¹³ Client Profile: Altria Group, Summary 2011, OpenSecrets.org, *available at* <http://www.opensecrets.org/lobby/clientsum.php?id=D000000067>.

¹⁴ [Redacted for privacy], United States House of Representatives: Calendar Year 2008 Financial Disclosure Statement at 2-3, (2008) (Encl. as "Exhibit D").

¹⁵ See Mathew Boyle, *Bribery, compromised officials leave indicted financial-crime suspects free from prosecution under Holder's DOJ*, DAILY CALLER, (Feb. 2, 2012), *available at* <http://dailycaller.com/2012/02/01/bribery-compromised-officials-leave-indicted-financial-crime-suspects-free-from-prosecution-under-holders-doj/?print=1>.

¹⁶ *Id.*

¹⁷ LOBBYING REPORTS, Russell Laird, Vice President, The Russell Group, (Quarters 1st-4th, 2011) (Encl. as "Exhibit E").

¹⁸ Biography, The Russell Group, *available at* <http://russellgroupdc.com/who/tredpath.html>; *See also* Salary Data, *available at* http://www.legistorm.com/person/Tyson_R_Redpath/27208.html.

¹⁹ *Supra* note 17.

²⁰ 18 U.S.C. § 1913.

(NCSC).²¹ NCSC spent \$120,000 to lobby on CFC's behalf regarding tax and Internal Review Code issues in 2011.²²

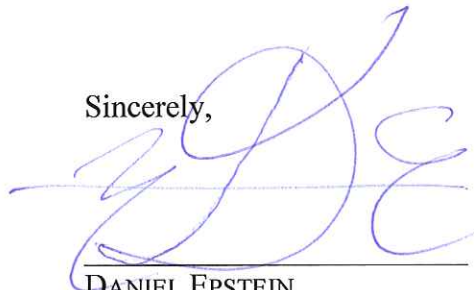
CFC also has connections with current congressional staffers which warrant oversight. The spouse of at least one senior-level staff member of the House Committee on Agriculture is an employee of CFC, which raises significant questions about potential conflicts of interest between the committee and the staffer.²³ As recently as 2011, NCSC lobbied the "Professional Staff" of the House Committee on Agriculture on behalf of CFC.²⁴

Given that CFC was under investigation for tax evasion, bribed prosecutors to forego charges, receives federal dollars, and employs the spouse of a senior congressional staff member, additional congressional oversight is required to ensure no laws or ethics rules have been broken by CFC employees, lobbyists, or congressional staffers.

Conclusion

CFC's recent involvement in bribery and other forms of corruption, combined with its connections to Capitol Hill, highlight the need for increased oversight of congressional staffers' use and sharing of political-knowledge. The Senate Select Committee on Ethics and House Committee on Ethics should initiate an investigation into cases of insider trading by congressional staff and commit the necessary resources to overseeing staff-based financial transactions in the future to ensure taxpayer dollars are not being used for impermissible purposes. Only then can the American people be assured that the information necessary to consider lawmaking in our government is not being misused to serve the interests of the few at the expense of the many.

Sincerely,



DANIEL EPSTEIN
EXECUTIVE DIRECTOR

cc: David Skaggs, Chairman
Office of Congressional Ethics
United States House of Representatives

²¹ Our History, National Cooperative Services Corporation, *available at* http://www.ncsc.coop/content/ncsc/about_ncsc/overview/our_history.html.

²² LOBBYING REPORTS, National Cooperative Services Corporation, (Quarters 2d-4th, 2011).

²³ [Redacted for privacy], United States House of Representatives Calendar Year 2008 Financial Disclosure Statements at 2, (2008) (Encl. as "Exhibit F").

²⁴ *Supra* note 23.

- Encl:
1. [Redacted for privacy], United States Senate Financial Disclosure Report for Annual and Termination Reports at 3-11, (2010) (Encl. as "Exhibit A").
 2. [Redacted for privacy], United States Senate Financial Disclosure Report for Annual and Termination Reports at 3-23, (2010) (Encl. as "Exhibit B").
 3. [Redacted for privacy], United States Senate Financial Disclosure Report for New Employee and Candidate Reports at 3, (2011) (Encl. as "Exhibit C").
 4. [Redacted for privacy], United States House of Representatives: Calendar Year 2008 Financial Disclosure Statement at 3, (2008) (Encl. as "Exhibit D").
 5. Lobbying Report, Russell Laird, Vice President, The Russell Group, (Quarters 1st-4th, 2011) (Encl. as "Exhibit E").
 6. [Redacted for privacy], United States House of Representatives Calendar Year 2008 Financial Disclosure Statements at 2, (2008) (Encl. as "Exhibit F").