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Bill Seeks to Ban Insider Trading By Lawmakers and Their Aides
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WASHINGTON -- Amid broad congressional concern about ethics scandals, some lawmakers are poised to expand the battle for reform: They want to enact legislation that would prohibit members of Congress and their aides from trading stocks based on nonpublic information gathered on Capitol Hill.

Two Democrat lawmakers plan to introduce today a bill that would block trading on such inside information. Current securities law and congressional ethics rules don't prohibit lawmakers or their staff members from buying and selling securities based on information learned in the halls of Congress.

It isn't clear yet what kind of support the bill will garner from Republicans. But its prospects are enhanced by the current charged environment in Congress; lawmakers from both parties in both houses have placed a high priority on passing ethics and lobbying-reform legislation. Such legislation would provide a vehicle to which proponents could attach a measure on stock trades.

In addition to banning trading on inside information, the proposal would require that lawmakers and their top aides disclose within 30 days any stock trades. Congressional rules now require lawmakers to disclose their trades once a year. The bill also would require that companies register with Congress if they sell information about congressional activity to Wall Street investors.

Unlike members of Congress, executive-branch employees already are banned from trading on inside information. Employees of several federal agencies are prohibited from investing in companies that have business before them. In 1934, for example, Congress banned Federal Communications Commission employees from owning stocks or bonds in telecommunications or broadcast companies.

The two Democrats who wrote the bill say they were motivated by the trading activity of a former top aide to Rep. Tom DeLay, the onetime Republican majority leader in the House. The aide, Tony Rudy, bought and sold hundreds of stocks from his computer in the U.S. Capitol in 1999 and 2000, according to financial-disclosure forms and other DeLay aides.

Neither Mr. Rudy nor his lawyer returned calls seeking comment. It is impossible to tell from the disclosure forms whether Mr. Rudy traded stocks based on information he gathered while working as deputy chief of staff and general counsel to Mr. DeLay, then the No. 3 Republican in the House.

Rep. Louise Slaughter, the New York Democrat who wrote the bill, said: "Top leadership aides know what is happening before anyone else. The potential for abuse there is incredible."

Rep. Brian Baird of Washington, the bill's co-sponsor, said there are "hundreds of billions of dollars on the line on congressional activity. If there is a way to make a profit on that, somebody has probably already figured out a way to do it. And it's not illegal."

Congressional Republicans declined to discuss the proposal until they see its exact language. Republican lawmakers could view it as a partisan ploy to hurt Mr. DeLay and another top Republican caught up in an insider-trading controversy: Senate Majority Leader Bill Frist of Tennessee, who has been trying to explain his sales of stock in a hospital firm long associated with his family.

In the current ethics-reform drive, lawmakers are considering steps such as banning lobbyists from taking members of Congress to lunch to requiring lobbyists to disclose all of their contacts on Capitol Hill. The stock-sales debate will expand that discussion.

Lawmakers are allowed to buy and sell securities -- and even vote on legislation that affects their investments -- except in rare circumstances. The chairman of the Senate Banking Committee, for example, would be allowed to buy stock in Bank of America Corp. and vote on banking issues that affect the bank. Ethics rules prohibit lawmakers from voting on issues only if they are among a small group of beneficiaries.

To some extent, the legislation would expand the commonly used definition of insider trading. According to the Securities and Exchange Commission, insider trading is the buying or selling of securities on the basis of material, nonpublic information in violation of a duty. But the information in question normally comes from inside a company: For example, an executive of a publicly traded company can't tell friends to sell company stock if he or she knows that the company is about to fall short of its quarterly earnings forecast.

Lawmakers and staff members never have faced similar obligations on the information they acquire. "If a congressman learns that his committee is about to do something that would affect a company, he can go trade on that because he is not obligated to keep that information confidential," said Thomas Newkirk, a partner with law firm Jenner & Block LLP and a former official with the SEC's enforcement division. "He is not breaching a duty of confidentiality to anybody and therefore he would not be liable for insider trading."

Congressional ethics rules addressing insider trading are "unspecific enough that there is room for clarification in legislation," said Ken Gross, an ethics lawyer with Skadden, Arps, Slate, Meagher & Flom LLP.

The proposed legislation would call on the SEC to establish rules to bar stock trading based on nonpublic information from Congress. It would prohibit lawmakers and their aides from trading based on information obtained in Congress that is not yet public. And it would prohibit lawmakers and staff from giving that information to others for investment purposes.

Ms. Slaughter is the top Democrat on the House Rules Committee, which is charged with overseeing much of the ethics-reform legislation. The reform legislation has arisen in the wake of a Justice Department investigation into Jack Abramoff, a top Republican lobbyist and onetime fund-raiser for Mr. DeLay. Mr. Abramoff pleaded guilty in January to trying to bribe lawmakers and staff with overseas trips, meals, greens fees and cash.

The Justice Department is looking into Mr. Abramoff's contacts with several Republican lawmakers and more than a dozen current and former aides of the lawmakers. Among those under investigation by federal prosecutors are Mr. DeLay and his onetime aide, Mr. Rudy.

Mr. Rudy made nearly 500 trades in 1999 and 2000, according to his annual financial-disclosure forms. Those forms show that he typically invested in high-technology and health-care companies and often held stocks for less than a day. About two-thirds of the stocks he purchased gained in value after he bought them.

It is difficult to tell how much Mr. Rudy profited on particular trades. House financial statements require disclosure of stock trades only in broad ranges. Mr. Rudy bought each of his stocks for between $1,001 and $15,000 and sold them in the same ranges.

But Mr. Rudy's net worth grew from 1999 to 2000. Mr. Rudy and his wife were at least $49,000 in debt at the end of 1999, according to his disclosure form. They owned no more than $1,000 in stock and reported a student-loan debt between $50,001 and $100,000.

At the end of 2000, Mr. Rudy and his wife reported assets between $6,007 and $91,000. Their student-loan debt was between $30,002 and $100,000.