

United States Senate Select Committee on Ethics
STOCK Act

 SELECT COMMITTEE ON ETHICS
The STOCK Act

Stop
Trading
On
Congressional
Knowledge

Act of 2012

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STOCK Act

- Imposes new financial disclosure reporting requirements
- Imposes new employment negotiation and recusal requirements
- Prohibits participation in IPOs not generally available to the public
- Reaffirms and clarifies that Members and all staff are subject to the insider trading restrictions by articulating a duty of "trust and confidence"

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Who is Subject to the STOCK Act?

The STOCK Act imposes new requirements for Senators, officers, and employees who are required to file a Financial Disclosure Report based on their rate of pay.

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Financial Disclosure Report ("FDR") filer

"FDR" filers include:

- A **new Senate employee** who is paid at a rate of at least \$119,554 and files a "new employee" FDR within 30 days of assuming his or her position;
- A **current Senate employee** who is paid at a rate of at least \$119,554 and files an "annual" FDR on May 15th; or
- A **current Senate employee who receives a permanent raise** midyear to a rate of at least \$119,554, with or without a promotion or change in title; a "new employee" FDR is due within 30 days of the permanent raise.

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Who is Not Subject to the Stock Act?

- Political Fund Designees paid less than \$119,554
- Fellows
- Detailees



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**FINANCIAL
DISCLOSURE
REQUIREMENTS**

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Prompt Reporting of Financial Transactions

Members, officers, and employees making at least \$119,554 must report transactions of stocks, bonds, commodities futures, and other assets in excess of \$1,000 *no later* than 30 days after receiving notification of the transaction, but in *no case later* than 45 days after such transaction.



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Definition

“Notification” occurs when a filer receives a written communication that a transaction has occurred, such as when a filer receives an email or other written confirmation from his or her broker or financial advisor that a transaction has occurred, or when a filer receives a monthly account statement reflecting any transaction that exceeds \$1,000.



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Exceptions

You do not need to disclose periodically transactions of:

- Publicly traded mutual funds and exchange traded funds (ETFs);
- Real property;
- Bank accounts;
- Pension plans;
- U.S. Treasury securities; and
- Any other investment that meets the definition of an excepted investment fund:
 - Widely Held (more than 100 participants);
 - Publically traded or widely diversified; and
 - No ability to control the financial interests held by the fund

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Mortgages

Senators **only** must disclose their mortgages for personal residences on their annual financial disclosure report.



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POST-EMPLOYMENT
NEGOTIATION and
RECUSAL
REQUIREMENTS

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Negotiating for Future Employment

- Senators and staff are permitted to seek new jobs while still employed by the Senate, subject to limitations:
 - Promise of future employment may not affect performance of Senate duties
 - No use of Senate resources and must perform search on one's own time
 - Disclosure obligations for Members and staff paid at annual rate of \$119,554 or more for CY 2012



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Disclosure of Employment Negotiations
for Senators

- Senators who want to negotiate or have an employment arrangement for jobs involving lobbying must wait until *after* their successor has been elected.
- For any other future private employment, Senators must file a signed public statement with the **Secretary of the Senate** within 3 business days of beginning the negotiations or arrangements for private employment or compensation.
- Senators who file the disclosure form must also recuse themselves whenever there is a conflict of interest or an appearance of a conflict with respect to the private entity identified on the form, and notify the **Ethics Committee** in writing of such recusals.

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Disclosure of Employment Negotiations
for Staff

- Senate employees paid at a rate of at least \$119,554 must notify the Ethics Committee in writing within 3 days after they start negotiating or making arrangements for future employment or compensation with a private entity.
- Senate employees paid at least \$119,554 must recuse themselves from official matters involving prospective private employers whenever there is a conflict of interest (or an appearance of one).
- Senior staff (**employees making \$130,500 or more**) must also recuse themselves from legislative matters that create a conflict of interest (or an appearance of one).

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Definitions

- A "*negotiation*" is the discussion of terms and conditions of employment after an offer has been made and the Senator or staffer is considering accepting.
- An "*employment arrangement*" begins when an offer has been made and accepted.



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IPO's

Members, officers, and employees making at least \$119,554 may not purchase securities that are part of an initial public offering (“IPO”) in any manner other than generally available to the public.



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INSIDER TRADING

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Insider Trading

Members of Congress and **all** congressional staff are prohibited from using material, nonpublic information derived from their official positions “as a means for making a private profit.”



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Definitions

- “*Material*” information is what a reasonable investor would want to know in making an investment decision.
- “*Nonpublic*” means confidential or not widely disseminated to the public.



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Duty of Trust and Confidence

The STOCK Act amended the securities law to make it clear that each Member or employee owes “a duty arising from the relationship of trust and confidence to the Congress, the United States Government, and the citizens of the United States with respect to material, nonpublic information derived from such person’s position as a Member of Congress or employee of Congress or gained from the performance of such person’s official responsibilities.”

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Tipping

- Insider trading violations may also include tipping.
- Tipping is passing along material, nonpublic information in violation of a duty of confidentiality.



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 **SELECT COMMITTEE ON ETHICS**
Ethics Rules Prohibit Insider Trading

- A Member, officer, or employee may “[n]ever use any information coming to him confidentially in the performance of governmental duties as a means for making private profit.” (Paragraph 8 of the Code of Ethics for Government Service)
- No “Cashing In” on Senate Position (Senate Rule 37.1)
- Committee staff holdings restriction (Senate Rule 37.7)
- Members, officers, and employees may not accept any gift, except as specifically permitted by Senate rules. (Senate Rule 35)

 **SELECT COMMITTEE ON ETHICS**
Contact the Committee

If you have any questions, please
contact the Committee

(202) 224-2981 (main) (202) 224-7416 (fax)

mailbox_office@ethics.senate.gov (email)

 **All Advice is Confidential** 
