

## Why GAO Did This Study

Companies and individuals use political intelligence to understand the potential effects of legislative and executive branch actions on business, finance, and other decisions. The STOCK Act of 2012 directed GAO to report to Congress on the role of political intelligence in the financial markets. GAO reviewed (1) the legal and ethical issues, if any, that may apply to the sale of political intelligence; (2) what is known about the sale of public and nonpublic political intelligence, the extent to which investors rely on such information, and the effect the sale of political intelligence may have on the financial markets; and (3) any potential benefits and any practical or legal issues that may be raised from imposing disclosure requirements on those who engage in these activities.

To answer these objectives GAO examined federal guidance including Securities and Exchange Commission Rule 10b-5 (related to insider trading), federal disclosure models including the Lobbying Disclosure Act, the Investment Advisers Act, and the Federal Election Campaign Act; and the extent to which data existed to measure the size of the political intelligence industry. GAO also interviewed individuals at political intelligence, media, financial services, and law firms; trade associations; advocacy organizations; and executive and legislative branch officials. Interviewees were selected based on research on the political intelligence industry, their experience with these activities and referrals.

## What GAO Recommends

GAO is not making recommendations in this report.

View [GAO-13-389](#). For more information, contact Michelle Sager at (202) 512-6806 or [sagerm@gao.gov](mailto:sagerm@gao.gov).

## POLITICAL INTELLIGENCE

### Financial Market Value of Government Information Hinges on Materiality and Timing

## What GAO Found

The Stop Trading on Congressional Knowledge (STOCK) Act of 2012 specifically defines political intelligence as information that is “derived by a person from direct communications with an executive branch employee, a Member of Congress, or an employee of Congress; and provided in exchange for financial compensation to a client who intends, and who is known to intend, to use the information to inform investment decisions.” While no other laws or ethics rules specifically govern political intelligence activities, securities laws and executive and legislative branch ethics rules and guidance do provide guidelines for government officials to protect material nonpublic information (e.g., information that has not been disseminated to the general public or is not authorized to be made public). For example, insider trading laws apply to both the executive and legislative branches and prohibit the disclosure of material nonpublic information derived from employees’ official positions for personal benefit.

The prevalence of the sale of political intelligence is not known and therefore difficult to quantify. The extent to which investment decisions are based on a single piece of political intelligence would be extremely difficult to measure. This is in part because a firm’s information is often bundled with other information such as industry research and policy analysis, and because the flow of information does not readily lend itself to quantification or ongoing documentation for the purpose of measuring industry activity. Investors typically use multiple sources of information to influence their investment and business decisions.

Even when a connection can be established between discrete pieces of government information and investment decisions, it is not always clear whether such information could be definitively categorized as material (would a reasonable investor find the information important in making an investment decision) and whether such information stemmed from public or nonpublic sources at the time of the information exchange (information has a higher value at a time when it is not widely known and thus has the potential to inform a profitable transaction). It is also difficult to determine the extent to which nonpublic government information is being sold as political intelligence. Specifically, it is not always possible to determine the timing of when nonpublic information becomes public. Representatives of most political intelligence firms interviewed said they have policies in place to ensure they do not knowingly sell material nonpublic information and potentially violate insider trading laws.

Finally, if Congress chose to supplement existing guidance and laws with required disclosure of political intelligence information, the benefits (such as greater transparency) and costs (such as resources to administer) of disclosure would have to be balanced along with consideration of related practical and legal issues. For example, Congress would need to address the lack of consensus on the meaning of the terms “direct communication” and “investment decision” to provide clarity regarding the definition of political intelligence as well as guidance to specify the purpose of disclosure, who would be required to file, how often disclosures would be required, and who would manage the disclosure process.