

# THE HILL



## **Editorial: Information Trade**

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Every time a stock is traded someone is buying it and someone else is selling it.

The implications of this simple fact are not uncomplicated. The buyer and seller agree to a price but generally disagree about what will happen next; usually, the buyer thinks the share price will rise and the seller thinks it will fall.

This suggests that the parties to the transaction have different information about the relevant corporation, or the industrial sector, or the economy as a whole.

Markets are mechanisms for processing all sorts of information, whether about the forthcoming weather, which will affect oil prices and much else, or about the likelihood of a government subsidy's being set at level x or level y.

One way or another, buyers and sellers generally think they know something that the other doesn't. And people acquire their information in every way they communicate — by reading a newspaper, by going to lunch with a well-informed friend, by noticing that an executive or government official is looking worried or relaxed.

This makes it difficult to arrive at wholly satisfactory criteria for what should and should not be illegal in the use of information for trading stocks. If you own a stock and learn something that suggests it will fall, you should be allowed to sell it.

Supplying the inside information is, however, a different matter. If a staffer on Capitol Hill or at a government agency has access to information because he or she works for a committee of jurisdiction or a regulatory body, it is clearly improper to inform an outsider to facilitate profitable stock transactions.

You cannot blame the seller for selling unless he or she improperly suborns the informant, but you can blame the informant for disseminating confidential information from his or her workplace.

As we reported yesterday, a Citigroup analyst wrote a report this month that quoted directly from an internal Medicare document. It disclosed privileged information useful to Wall Street traders. It was a good get by the analyst. But how did he get it?

Democratic Reps. Brian Baird (Wash.) and Louise Slaughter (N.Y.) have introduced a bill that would make it illegal for members of Congress and their staff to release

nonpublic information if they know the information is going to be used to trade stocks. This is reasonable, proscribing actions that are clearly beyond the pale.

Capitol Hill lawmakers and staffers should not be tipping off investors at the expense of other investors.