

Research Question

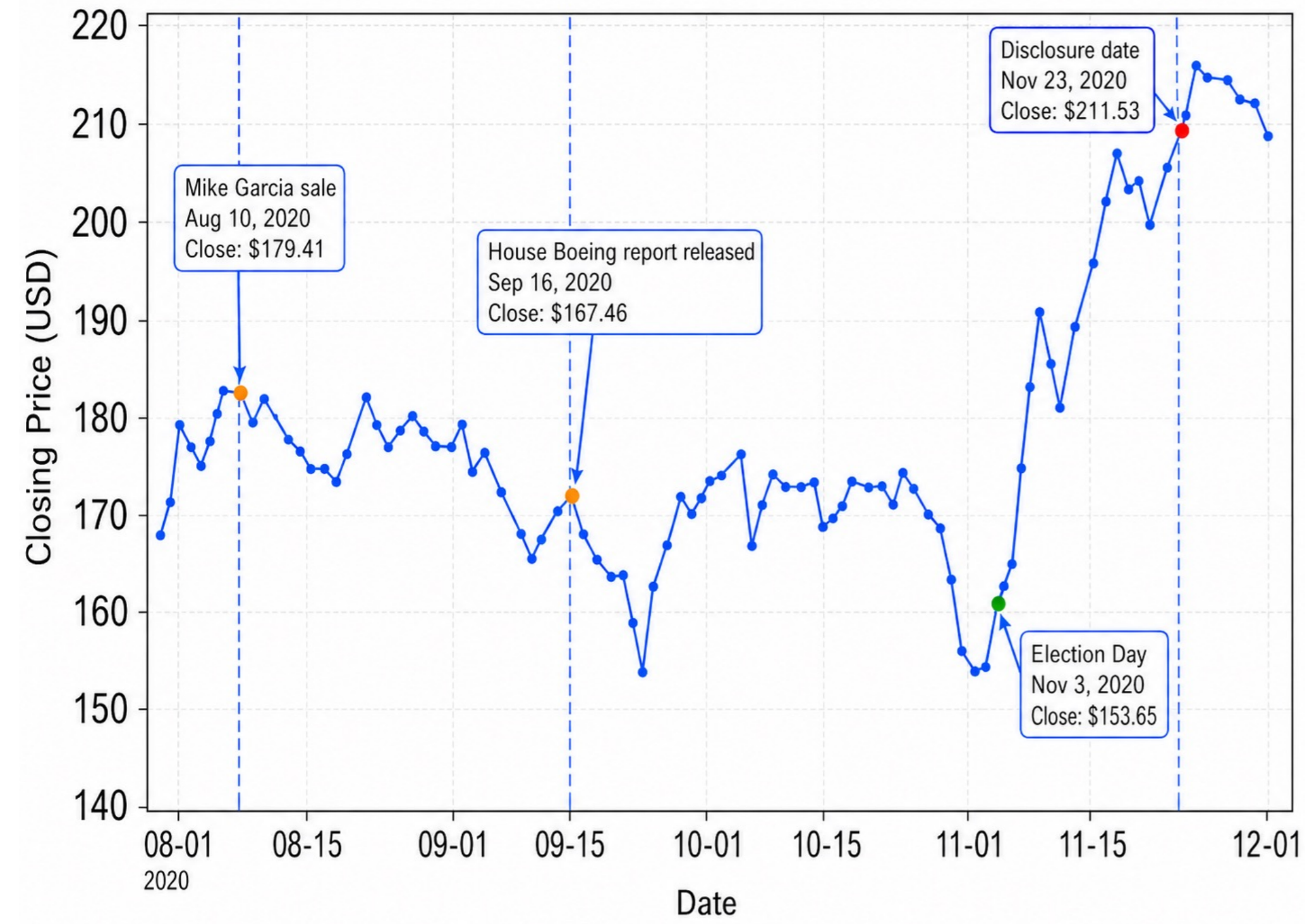
We examine whether Members of the U.S. Congress strategically disclose stock trades in response to electoral pressure.

Institutional Background

- The **Stop Trading on Congressional Knowledge Act** of 2012
- Any stock transactions exceeding \$1,000 must be reported no later than 45 days after execution.
 - However
 - Weak enforcement: **13%** of trades violate the 45-day requirement
 - Penalty for late disclosures: **only \$200** and often waived

Example: Rep. Mike Garcia

- Served on the House Transportation and Infrastructure Committee
- Sold Boeing shares shortly before the Committee released a critical report on Boeing
- Disclosed the sale only after narrowly winning reelection**
- Disclosed after the 45-day deadline, when Boeing's stock price had recovered**



Finding #1: Strategic Pre-Election Silence

- Data: a comprehensive sample of trades from 2013 to 2023
- High_Salience**: Trades with larger dollar value or involving sensitive industries (i.e., defense, financial services, healthcare and energy)
- Baseline results

Dependent variable:	BHAR_Profit (1)	Raw_Profit (2)	High_Salience (3)
<i>PressureWindow</i>	-0.004** (-2.53)	-0.007*** (-3.91)	-0.023** (-2.27)
Politician FE	Yes	Yes	Yes
Congress FE	Yes	Yes	Yes
No. of observations	88115	88115	88115
Adj. R-Squared	0.0044	0.0086	0.2246

- Finding: Politicians running for reelection avoid disclosing *profitable* trades and trades likely to appear *informed* before Election Day.
- Isolating the disclosure effect

	<i>Post_Elec_Disc</i>	
	(1)	(2)
<i>ElectYear</i>	0.046*** (5.39)	1.199*** (7.88)
Model	OLS	Logit
Distance-to-Election FE	Yes	Yes
Politician FE	Yes	Yes
Congress FE	Yes	Yes
No. of observations	10524	8230
R-Squared	0.6675	0.6797

Finding #1: Strategic Pre-Election Silence (cont.)

- Findings
 - Politicians take full advantage of the lax disclosure requirements (45 days) to avoid disclosing trades prior to elections.
 - Cross-sectional: these patterns are stronger among
 - politicians in close races
 - politicians from economically distressed districts, where voter resentment toward elite privilege is strongest.

Finding #2: Delayed Disclosure Violations

Sample:	<i>Delayed Disclosure</i>			
	Executed [-135, -45] Days relative to (pseudo) Election Day		Executed [-N, -45] Days relative to (pseudo) Election Day	
	(1)	(2)	(3)	(4)
<i>ElectYear</i>	0.008* (1.83)	1.106** (2.31)	0.006** (2.38)	1.009*** (3.01)
Model	OLS	Logit	OLS	Logit
Distance-to-Election FE	Yes	Yes	Yes	Yes
Politician FE	Yes	Yes	Yes	Yes
Congress FE	Yes	Yes	Yes	Yes
No. of observations	19292	1114	62173	10755
R-Squared	0.4611	0.3509	0.4688	0.5772

- Findings
 - Some politicians go further by violating the STOCK Act and delaying required pre-election disclosures past the legal deadline.

Finding #3: Electronic vs. Paper Filings

- Electronic filing



FILER INFORMATION

Name: Ms. Suzan K. DelBene
Status: Member
State/District: WA01

TRANSACTIONS

ID	Owner Asset	Transaction Type	Transaction Date	Notification Date	Amount
JT	Chicago Bridge & Iron Company N.V. (CBI)	S	06/18/2014	06/18/2014	\$15,001 - \$50,000

- Paper filing

NAME: GEORGE HOLDING OFFICE TELEPHONE: 53032

Member of the U.S. House of Representatives
State: NC District: 13

Officer or Employee
Employing Office: _____

AMOUNT OF TRANSACTION

FULL ASSET NAME	TYPE OF TRANSACTION	DATE OF TRANSACTION	AMOUNT OF TRANSACTION																	
			A	B	C	D	E	F	G	H	I	J								
<u>DURHAM CNTY NC</u>	<u>X</u>	<u>5/1/14</u>																		

- Paper-filed trades are more profitable

Sample Window	Start Year	Diff in Mean Profit (Paper - Electronic)
All years	2013	0.0005
Drop 2013	2014	0.0009
Drop 2013-2014	2015	0.0014*
Drop 2013-2015	2016	0.0019**
Drop 2013-2016	2017	0.0025***
Drop 2013-2017	2018	0.0027***
Drop 2013-2018	2019	0.0024**

Contribution

- Shifts the focus from politicians' trading decisions to their disclosure choices.
- Shows how weak disclosure rules and lax enforcement enable strategic behavior by political insiders.