

## Political Intelligence Firm Fined \$375,000, Underscoring Need to Tailor Insider Trading Policies to Interactions with Government

December 1, 2015

On November 24, 2015, the Securities Exchange Commission [announced](#) the conclusion of a four-year investigation into Washington, D.C., political intelligence firm Marwood Group Research, LLC, for sharing material non-public information (“MNPI”) about future government actions with hedge funds and other financial industry clients, and failing “to establish, maintain and enforce written policies and procedures reasonably designed to prevent the misuse of material, nonpublic information.” Marwood Group agreed to pay a \$375,000 civil penalty, retain an independent compliance consultant, and implement changes to its policies and procedures.

This action is the latest from the SEC as it ramps up enforcement of insider trading laws as applied to inside information obtained from government sources following the adoption of the Stop Trading on Congressional Knowledge Act (“STOCK Act”) in 2012.

The MNPI at issue—intel on a pending analysis of a prostate cancer immunotherapy and the outcome of a diabetes drug application—was obtained by its analysts from contacts in the Centers for Medicare and Medicaid Services and the Food and Drug Administration. Notably, Marwood Group already had policies and procedures in place to prevent the dissemination of MNPI, including any nonpublic information about any “action by a regulatory or other government agency.” According to the SEC, however, Marwood Group’s policies and procedures were insufficiently tailored to address its interactions with government employees. Specifically, the SEC noted that even though Marwood Group actively encouraged its analysts to contact government officials, its policies and procedures “did not expressly require the compliance department to be advised as to the source of the information . . . or about communications with government sources, if any.”

The Commission’s Order underscores the need for government affairs and political intelligence firms, as well as hedge funds and investment firms with in-house government affairs personnel, to ensure their insider trading policies and procedures are sufficiently tailored to capture and quarantine MNPI obtained from government sources. These policies and procedures should, at a minimum, train government affairs personnel to identify potential MNPI received during interactions with government officials and employees, and ensure that managers and compliance personnel are provided with sufficient information to properly evaluate and quarantine information obtained from government sources, especially including the source of any intel and the context in which it was received.

[Caplin & Drysdale's Political Law Group](#) counsels for-profit corporations, nonprofit entities, and their principals on these and other matters relating to political law compliance. We work collaboratively with in-house personnel to craft tailored political activity policies and programs. If you have questions concerning this alert or for more information, please contact:

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