

THE BAIS HAVAAD

HALACHA JOURNAL

Family, Business, and Jewish Life through the Prism of Halacha



A PUBLICATION OF THE
BAIS HAVAAD HALACHA CENTER
 105 River Ave. #301, Lakewood NJ 08701
 1.888.485.VAAD (8223)
www.baishavaad.org
info@baishavaad.org
 Lakewood • Midwest • Brooklyn • South Florida

VOLUME 5782 • ISSUE XIV • PARSHAS VA'EIRA



TAKING STOCK: INSIDER TRADING IN HALACHA

Adapted from the writings of Dayan Yitzhak Grossman

CNBC reports:

House Speaker Nancy Pelosi scoffed Wednesday at the idea of banning congressional lawmakers and their spouses from owning shares of individual companies, despite the possibilities for conflicts of interest between their legislative duties and personal finances.

"No," Pelosi, D-Calif., told reporters at a news conference where she was asked whether she would support such a prohibition.

"We're a free market economy," she said. "They should be able to participate in that."¹

Some criticized Pelosi's stance on the grounds that it is too easy for lawmakers to engage in insider trading:

It's a ridiculous comment! She might as well have said "let them eat cake." Sure, it's a free-market economy. But your average schlub

doesn't get confidential briefings from government experts chock full of nonpublic information directly related to the price of stocks.²

Insider trading is a rather confusing and controversial legal concept, since it is difficult to articulate a coherent harm it entails:

There has long been "considerable academic debate" among business and legal scholars over whether or not insider trading should be illegal...Some legal analysis has questioned whether insider trading actually harms anyone in the legal sense, since some have questioned whether insider trading causes anyone to suffer an actual "loss," and whether anyone who suffers a loss is owed an actual legal duty by the insiders in question... Some economists and legal scholars (such as Henry Manne, Milton Friedman, Thomas Sowell, Daniel Fischel, and Frank H. Easterbrook) have argued that laws against

¹ Dan Managan. House Speaker Nancy Pelosi opposes banning Congress members from owning individual stocks: 'We're a free market economy.' CNBC. <https://www.cnbc.com/2021/12/15/house-speaker-nancy-pelosi-opposes-banning-stock-buys-by-congress-members.html>.

² Walter Shaub on Twitter. <https://twitter.com/waltshaub/status/1471188793436815368>.

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לע"נ הרב יוסף ישראל
 ב"ר משה גרוסמן זצ"ל

Dedicated in loving memory of
 HaRav Yosef Grossman zt"l



PARSHAS VA'EIRA

CROSS TALK

Excerpted and adapted from a shiur by
 HaRav Yechiel Biberfeld

Moshe said to him: When I leave the city, I will spread out my hands to Hashem. The thunder will cease, and there will be no more hail, in order that you will know that the land is Hashem's.

Shmos 9:29

Rashi explains that Moshe had to leave the city before davening because it is forbidden to daven in the presence of *avodah zarah*.

The Trumas Hadeshen was asked whether a traveler may daven Mincha on the side of the road, where he might be disturbed by other travelers, or he must wait until he reaches an inn. He answers that it is preferable to wait until reaching an inn. But if the inn may have *avodah zarah* on the walls (like Christian pictures, symbols, or statues), it would be forbidden to daven there based on the above Rashi. The Rama (Orach Chaim 94:9) codifies this ruling.

This question is relevant today in places like a Catholic hospital with Christian pictures or symbols on the wall (e.g., a crucifix;

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Q&A from the
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Hanging On

Q I took down my mezuzah to have it checked. Should I make a *bracha* upon rehangiang it?
A R' Akiva Eiger (Y.D. 286) writes that it depends whether you had a *hesech hada'as* (mental interruption). But what constitutes a *hesech hada'as*? Rav Elyashiv (quoted in Shu"t Avnei Yashfeh 1:207:3), R' Shmuel Wosner (Kovetz Mibais Levi Y.D., mezuzah), and R' Moshe Sternbuch (Shu"t Teshuvos Vehanhagos 2:551) rule that there is no *hesech hada'as* if one rehangs the mezuzah the same day he took it down. This seems to be the prevalent minhag.

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insider trading should be repealed.³

Legal scholar Henry Manne was a prominent staunch opponent of the prohibition against insider trading, arguing that the practice causes no harm:

[I]t's very clear that that person is in the stock market, an anonymous market, to sell the shares and doesn't care who buys them. If there's information out there, it may be an insider has it. It doesn't make any difference. Once you make a decision to sell, you don't lose anything when there's an additional buyer in the market, because that person happens to have information. That's absurd.⁴

What is the attitude of halacha to insider trading?⁵ In this article, we consider the applicability of the halachos of fraud; in a follow-up article, we shall *iy"H* consider halachic perspectives on some other rationales for prohibiting insider trading.

MEKACH TA'US

Halacha generally considers invalid a transaction in which a party was ignorant of material information that affects the transaction's desirability (*mekach ta'us*); whether the other party was aware of the information in question and attempted to take advantage of the ignorant party, or was also ignorant of the information, is irrelevant.

In at least some scenarios involving insider trading, the nonpublic information to which the outsider was not privy could theoretically be grounds for a claim of *mekach ta'us*, but as we have explained, *mekach ta'us* does not require asymmetry of information, and the insider's possession of nonpublic information is entirely irrelevant. Accordingly, if the outsider's ignorance of the information in question would be grounds for *mekach ta'us*, this would be the case *even if* the counterparty was similarly ignorant!

³ Wikipedia contributors. Insider trading. In Wikipedia, The Free Encyclopedia. https://en.wikipedia.org/w/index.php?title=Insider_trading&oldid=1061151790

⁴ Larry Elder. Legalize Insider Trading. Capitalism Magazine. Sep. 24, 2004. <https://web.archive.org/web/20041210094504/http://www.capmag.com/article.asp?ID=3933>.

⁵ Rabbi Dr. Aaron Levine discusses this topic in his Case Studies In Jewish Business Ethics, from p. 163.

In practice, however, it seems that securities trading rules generally stipulate that all trades are absolutely irreversible (i.e., not subject to rescission),⁶ and such a well-understood and universally accepted convention would presumably rule out any possibility of a claim of *mekach ta'us*. Although there is some dispute among the *poskim* as to whether a prevailing custom or formal communal enactment to ignore certain claims of *mekach ta'us* is binding,⁷ it seems to this author that in the case of securities trading, where an entire category of transaction is highly regulated and governed by precisely specified, universally accepted rules, all authorities would agree that participants are bound by these rules, even where they diverge from classic halacha.

THE PROHIBITION OF ONA'AH

Even where a transaction is not considered a *mekach ta'us*, there is still a *lechat'chilah* prohibition against fraud (*ona'ah*) and an obligation to disclose any defect in an item being sold.⁸ Here as well, however, insofar as these rules would apply to securities trading, they would extend far beyond the legal bans on insider trading, and would prohibit trading on nonpublic information *even by non-insiders*, such as an analyst whose research discovered a company's fraudulent accounting or undisclosed business troubles. And once again, in practice it seems to this author that a similar argument to the one made above about *mekach ta'us* applies to *ona'ah* as well. Although here too the *poskim* debate whether a practice that would be considered objectively fraudulent is permitted if it is the universal or general practice,⁹ it seems that the prohibition of *ona'ah* would not

⁶ Wikipedia contributors. Rescission (contract law). In Wikipedia, The Free Encyclopedia. [https://en.wikipedia.org/w/index.php?title=Rescission_\(contract_law\)&oldid=1032134257](https://en.wikipedia.org/w/index.php?title=Rescission_(contract_law)&oldid=1032134257).

⁷ See Shulchan Aruch C.M. 232:19; Shu"t Radvaz *cheilek 4 siman 1206* (136), cited in brief in Mishpat Shalom 232:7; Shu"t Mekor Baruch *siman 55* end of p. 57b; Shu"t Knesses Yechezkel *siman 85*, cited in Pis'chei Teshuvah C.M. *siman 227 s.k. 11*; Shu"t Chinuch Bais Yehudah *siman 108*; Misgeres Hashulchan, cited in Mishpat Shalom 232:11; Shu"t Bais Shlomo C.M. *siman 87 s.v. Temol...aval Moharashdam*; Shu"t Tshuras Shai (*kama*) *siman 456 s.v. Ve'efshar afilu minhag barur*; Ksoneh Yosef os aleph *shoresh 2 anaf 1*; Pis'chei Teshuvah C.M. *siman 232 s.k. 6*; Chochmas Shlomo C.M. 209:2; Shu"t Shem Aryeh O.C. *siman 13*; Shu"t Vehayah Ha'olam *siman 23*.

⁸ Shulchan Aruch C.M. 228:6; Sma *ibid. s.k. 7*.

⁹ See Sma *siman 228 s.k. 16*; Shulchan Aruch HaRav *Ona'ah se'if 16*; Shu"t Divrei Malkiel *cheilek 3 siman 54*; Minchas Yaakov *klaf 60 s.k. 1*; Nachalas Tzvi Y.D. beginning of *siman 97*.

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If the original mezuzah was replaced the same day with another, *poskim* disagree whether a *bracha* is required. Changing the mezuzah should be discussed with a *rav*.



If one is rehanging a mezuzah because it fell down, a *bracha* is certainly required. This is so even if the mezuzah didn't fall down but only began swinging because one of its two nails fell out (Chovas Hadar 11, footnote 29).

Sefer Agurah B'ahalecha (1:38) recommends that while hanging a mezuzah initially, one should have the intent that his *bracha* is only for that one hanging, and all subsequent hangings aren't included. This would enable him to make a *bracha* on any rehanging without question.

One should be aware that in certain situations there is no *bracha* even at the initial placement of a mezuzah, e.g., in a doorway that has no door.

apply to the securities markets given that it is universally understood that a party to a securities transaction has absolutely no duty to disclose any nonpublic information in his possession, even if such information could adversely affect the desirability of the transaction.

Given that the law does generally prohibit insider trading, however, it might follow that there is indeed an expectation that a party to a trade is not in possession of any material inside information, and it might therefore constitute *ona'ah* for an insider to trade on nonpublic information (in addition to being illegal). But this is not necessarily so, because a party to a securities transaction is typically oblivious to the identity of his counterparty. Because he has no idea whether that person is an insider or not, perhaps he cannot be considered to have any expectations of him.

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see *Ishei Yisrael* citing R' Chaim Kanievsky), in which case one may not

recite *divrei Torah* or daven in the room. If a patient cannot leave, the Mishnah Brurah writes that he should ideally turn away. If

this too is impossible, he should close his eyes while davening or reciting Torah.

Shu"t Betzeil Hachochmah (2:84) writes that in a hotel with a Christian bible, one must remove it from sight before davening or speaking *divrei Torah*.¹

¹ See Shu"t Cheilek Levi (44), who disagrees in principle with this approach and claims that Moshe's case was different since he had to spread his hands specifically. But even he rules in practice that one should be careful not to daven in such places.

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