

# Securities Regulation Daily Wrap Up, TOP STORY—N.D. Ill.: CFTC complaint identifies alleged culprit in 2010 flash crash, (Apr. 21, 2015)

By Jacquelyn Lumb

The CFTC announced today that it has identified the culprit believed to have significantly contributed to the May 6, 2010 flash crash in which the Dow Jones Industrial Average dropped 600 points in five minutes. In a complaint unsealed today in the Northern District of Illinois, the CFTC alleged that Navinder Singh Sarao and his trading firm Nav Sarao Futures Limited PLC engaged in a massive spoofing scheme to manipulate the Chicago Mercantile Exchange's E-mini S&P 500 futures contract from June 2009 to the present. The [complaint](#) was filed under seal because the Department of Justice was also investigating the matter. Sarao was arrested this morning in London, where he resides, and will await extradition to the U.S. to face both civil and criminal charges.

CFTC Enforcement Director Aitman Goelman explained at today's media briefing, that Sarao modified an off-the-shelf trading platform which enabled him to layer large sell orders in the E-mini, with each sell order one price level away from the other. As the E-mini futures price moved, the algorithm modified the price of the sell orders to ensure that they remained at least three or four price levels from the best asking price. The orders remained visible to other traders, but staying safely away from the best asking price. The downside pressure his orders placed on the E-mini created artificial volatility which allowed him to profit by over \$40 million. Goelman said that Sarao was particularly active on May 6, 2010, the date of the flash crash, and was significantly responsible for the order imbalance that led to the flash crash.

The case reflects the CFTC's renewed focus on working with the criminal authorities, according to Goelman. On the deterrence front, he said there is no substitute for putting an individual behind bars. He hopes the action sends the message that manipulation of

the markets, even if one resides outside the U.S. borders, does not make them safe from prosecution.

In response to a question about the SEC's role in the matter, Goelman noted that the CFTC acknowledged and thanked the Commission for its assistance. However, the CFTC has jurisdiction over the E-mini, he said. The E-mini is a stock market index futures contract based on the S&P 500 index. According to the CFTC, it is one of the most popular and liquid equity index futures contracts in the world.

The CFTC also received assistance from the CME, the Department of Justice, the FBI, Scotland Yard, and the U.K.'s Financial Conduct Authority.

Goelman said the CFTC has obtained a statutory restraining [order](#) to require financial institutions that hold Sarao's funds to freeze the funds and prevent their dissipation, amounting to \$7 million to date. The order also prohibits the destruction of books, records or other documents. The CFTC seeks injunctive relief, civil monetary penalties, and other equitable relief.

The DOJ has charged Sarao with wire fraud, commodities fraud and manipulation (*U.S. v. Navinder Singh Sarao*, [15cr75](#)).

The case is [No. 1:15-cv-03398](#).

MainStory: TopStory CFTCNews Enforcement FraudManipulation

[Back to Top](#)