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CFTC Charges U.K. Resident Navinder Singh Sarao and His Company Nav Sarao Futures Limited PLC with Price Manipulation and Spoofing

The CFTC Complaint Alleges that Defendants' Manipulative Conduct Contributed to the Market Conditions that Led to the May 6, 2010 Flash Crash

Washington, DC – The U.S. Commodity Futures Trading Commission (CFTC) today announced the unsealing of a civil enforcement action in the U.S. District Court for the Northern District of Illinois against **Nav Sarao Futures Limited PLC** (Sarao Futures) and **Navinder Singh Sarao** (Sarao) (collectively, Defendants). The CFTC Complaint charges the Defendants with unlawfully manipulating, attempting to manipulate, and spoofing — all with regard to the E-mini S&P 500 near month futures contract (E-mini S&P). The Complaint had been filed under seal on April 17, 2015 and kept sealed until today's arrest of Sarao by British authorities acting at the request of the U.S. Department of Justice (DOJ). After the arrest, the DOJ unsealed its own criminal Complaint charging Sarao with substantively the same misconduct.

The Standard & Poor's 500 Index is an index of 500 stocks designed to be a leading indicator of U.S. equities. The E-mini S&P 500 is a stock market index futures contract based on the Standard & Poor's 500 Index and is one of the most popular and liquid equity index futures contracts in the world. The contract is traded only at the Chicago Mercantile Exchange (CME).

According to the Complaint, for over five years and continuing as recently as at least April 6, 2015, Defendants have engaged in a massive effort to manipulate the price of the E-mini S&P by utilizing a variety of exceptionally large, aggressive, and persistent spoofing tactics. In particular, according to the Complaint, in or about June 2009, Defendants modified a commonly used off-the-shelf trading platform to automatically simultaneously "layer" four to six exceptionally large sell orders into the visible E-mini S&P central limit order book (the Layering Algorithm), with each sell order one price level from the other. As the E-mini S&P futures price moved, the Layering Algorithm allegedly modified the price of the sell orders to ensure that they remained at least three or four price levels from the best asking price; thus, remaining visible to other traders, but staying safely away from the best asking price. Eventually, the vast majority of the Layering Algorithm orders were canceled without resulting in any transactions. According to the Complaint, between April 2010 and April 2015, Defendants utilized the Layering Algorithm on over 400 trading days.

The Complaint alleges that Defendants often cycled the Layering Algorithm on and off several times during a typical trading day to create large imbalances in the E-mini S&P visible order book to affect the prevailing E-mini S&P price. Defendants then allegedly traded in a manner designed to profit from this temporary artificial volatility. According to the Complaint, from April 2010 to present, Defendants have profited over $40 million, in total, from E-mini S&P trading.

As alleged in the Complaint, Defendants were exceptionally active in the E-mini S&P on May 6, 2010, commonly known as the Flash Crash Day. On the afternoon of that day, the E-mini S&P market price suffered a sharp decline, followed shortly thereafter by sharp declines in the prices of other major U.S. equities indices and individual equities. After a few minutes, markets quickly rebounded to near previous price levels. According to the Complaint, Defendants utilized the Layering Algorithm continuously, for over two hours, immediately prior to the precipitous drop in the E-mini S&P price, applying close to $200 million worth of persistent downward pressure on the E-mini S&P price. According to the Complaint, Defendants' manipulative activities contributed to an extreme E-mini S&P order book imbalance that contributed to market conditions that led to the Flash Crash.

The Complaint further alleges that Defendants engaged in a variety of other manual spoofing techniques whereby Defendants allegedly would place and quickly cancel large orders with no intention of the orders resulting in transactions. At times, according to the Complaint, this manual spoofing was used to exacerbate the price impact of the Layering Algorithm.

CFTC Director of Enforcement Aitan Goelman commented: "Protecting the integrity and stability of the U.S. futures markets is critical to ensuring a properly functioning financial system. Today's actions make clear that the CFTC, working with its partners on the criminal side, will find and prosecute manipulators of U.S. futures markets wherever they may be."

In its ongoing litigation, the CFTC is seeking permanent injunctive relief, disgorgement, civil monetary penalties, trading suspensions or bans, and payment of costs and fees.

As noted above, the U.S. Department of Justice filed a related criminal action charging Sarao with manipulation, attempted manipulation, spoofing, and wire fraud on February 11, 2015, in the U.S. District Court for the Northern District of Illinois. In conjunction with that action, Scotland Yard took Sarao into custody today, at his residence in London. Sarao awaits extradition to the United States on these charges.

Given Defendants' ongoing unlawful conduct and the potential for dissipation of Defendants' ill-gotten gains, on April 17, 2015, U.S. District Judge Andrea R. Wood issued an Order freezing and preserving assets under Defendants' control and prohibiting them from destroying documents or denying CFTC staff access to their books and records. The Court has scheduled a hearing for May 1, 2015, on the CFTC's motion for a preliminary injunction.

The CFTC thanks and acknowledges the assistance of the CME, the U.S. Department of Justice, the Federal Bureau of Investigation, the U.K.'s Financial Conduct Authority, Scotland Yard, and the Securities and Exchange Commission.

CFTC Division of Enforcement staff members responsible for this matter are Jeff Le Riche, Jo Mettenburg, Jenny Chapin, Jessica Harris, Allison Sizemore, Carlin Metzger, Elizabeth Padgett, Mary Lutz, Jeri Cobb, Jordon Grimm, Rick Glaser, and Charles Marvine.

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