

Acting Assistant Attorney General John P. Cronan Announcing Futures Markets Spoofing Takedown

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Remarks as Prepared for Delivery

Today, the Criminal Division of the Department of Justice is pleased to announce the largest futures market criminal enforcement action in Department history.

In six cases across three federal districts, we have charged eight individuals in connection with their alleged roles in manipulating futures markets for precious metals, as well as futures markets for S&P 500, Dow Jones Industrial Average, and NASDAQ E-mini futures contracts.

The alleged conduct in these cases once again reflects a disturbing and reckless trend of individuals and companies seeking to put illicit gains and profits above honest and law abiding conduct – and by doing so, harming innocent investors and putting the very integrity of our financial markets at risk.

Today's announcement marks the latest chapter of the Criminal Division's ongoing – and unwavering – commitment to protecting the integrity of our financial markets.

The charges we are announcing today relate to alleged fraud and manipulation of the U.S. futures markets through schemes that are colloquially known as “spoofing.”

Spoofing refers to the illegal practice of placing an order for a futures contract that the trader never intended to be executed in the first place. These spoofed orders are often cancelled almost immediately after they are placed – frequently within seconds – and therefore are never filled.

Spoofed orders alter the appearance of supply and demand, and manipulate otherwise efficient markets. The intended effect of spoofing is to entice other traders to base their investment decisions on that false perception of supply and demand.

The alleged conduct in the cases announced today was identified and investigated through a variety of methods, including traditional law enforcement techniques, cooperation by relevant corporate actors, and, importantly, data analysis.

Let me say a word about that data analysis. The Department and its law enforcement partners have developed the ability to identify spoofing patterns through sophisticated analysis of market-level data.

Going forward, we expect to use data analysis to an even greater degree in order to identify fraudulent and manipulative conduct in our financial markets.

The Criminal Division's message is clear. We are watching. We are closely monitoring the markets. And we will leave no stone unturned in our efforts to combat and eradicate illegal, fraudulent, and manipulative market conduct.

Our country's markets are trusted globally, attracting investors from throughout the United States and around the world – and they must remain trusted. If investors lose trust and faith in our markets, our country suffers.

I will now briefly discuss the criminal prosecutions announced today. The first four I will mention were filed in the Northern District of Illinois.

The first case alleges that two precious metals traders – James Vorley of the United Kingdom and Cedric Chanu, a French citizen – participated in a scheme to commit spoofing, wire fraud, and commodities fraud by placing thousands of orders in connection with over one hundred instances of coordinated spoofing between approximately 2008 and 2015.

The second case charges Jitesh Thakkar with spoofing offenses involving the market for E-mini futures contracts.

An E-Mini futures contract is a stock market index contract that represents an agreement to buy or sell the future cash value of the S&P 500, NASDAQ, or Dow – depending on which E-Mini futures product is being traded.

As alleged in the criminal complaint, Thakkar is the founder and principal of Edge Financial Technologies, Inc., a Chicago-based information technology consulting firm that specialized in creating custom computer programs for sophisticated commodities traders.

Thakkar allegedly was involved in creating a software program that was used by his co-conspirator to engage in spoofing

through the placement of thousands of S&P 500 E-mini futures contract orders. This automated trading program was allegedly designed to prevent certain spoof orders from actually being executed by automatically moving the spoof orders to the back of the order queue.

The third case charges Jiongshen Zhao with various spoofing and fraud offenses, along with making false statements to a registered entity, the Chicago Mercantile Exchange.

As alleged, Zhao – a trader at a proprietary trading firm located in Sydney, Australia – manipulated the S&P 500 E-Mini futures market in hundreds of individual episodes between approximately 2012 and 2016, by employing an illegal spoofing strategy.

The fourth case charges Edward Bases and John Pacilio with substantive commodities fraud offenses, and Bases with substantive spoofing offenses, involving the precious metals futures markets.

According to electronic chats cited in the criminal complaint, both defendants allegedly bragged about their ability to “manipulate” and “spooft” the market to their illicit advantage.

We also are announcing today charges that were previously filed in the District of Connecticut against an alleged precious metals futures trader for UBS AG named Andre Flotron. Flotron allegedly conspired with other UBS precious metal traders to engage in spoofing between approximately 2008 and 2013.

Lastly, Krishna Mohan, allegedly a commodities trader at a proprietary electronic trading firm with locations around the world, was charged in the Southern District of Texas with commodities fraud and spoofing offenses.

Mohan allegedly engaged in manipulating Dow and NASDAQ E-Mini futures in hundreds of episodes by employing an illegal spoofing strategy that involved placing orders on both sides of the market.

Through recent cases handled by the Criminal Division, and the cases we are announcing today, criminal activity that jeopardizes the integrity of our financial markets will not be tolerated.

Finally, I want to thank the hard working prosecutors in the Criminal Division's Fraud Section who are handling these cases. In particular, I commend the leadership of the Fraud Section, and especially thank Assistant Chiefs Nicholas Surmacz and Carol Sipperly; Trial Attorneys Jeffrey Le Riche, Michael O'Neill, Michael Rinaldi, Matthew Sullivan, Mark Cipolletti, and Corey Jacobs; and Assistant United States Attorney Avi Perry from the U.S. Attorney's Office for the District of Connecticut, for their outstanding work prosecuting these cases.

I also thank the dedicated law enforcement agents at the Federal Bureau of Investigation and United States Postal Inspection Service who have investigated, and will continue to investigate, these cases, as well as James McDonald, the Director of Enforcement at the Commodity Futures Trading Commission, and his staff, for their assistance.