



## **ATTACHMENT A**

### **Count One** **(Conspiracy to Commit Securities Fraud)**

From at least as early as in or about January 2013 through in or about January 2015, in the District of New Jersey and elsewhere, defendant

#### **ALEKSANDR MILRUD**

knowingly and intentionally conspired and agreed with others to commit an offense against the United States, namely, securities fraud, in that he and others willfully and knowingly, directly and indirectly, by the use of means and instrumentalities of interstate commerce, and of the mails, and of facilities of national securities exchanges, would and did use and employ, in connection with the purchase and sale of securities, manipulative and deceptive devices and contrivances by: (a) employing devices, schemes and artifices to defraud; (b) making untrue statements of material fact and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaging in acts, practices and courses of business which operated and would operate as a fraud and deceit upon persons, all in violation of Title 15, United States Code, Sections 78j(b) and 78ff, and Title 17, Code of Federal Regulations, Section 240.10b-5.

#### **Overt Acts**

In furtherance of the conspiracy and to effect its unlawful object, the following overt acts, among others, were committed in the District of New Jersey and elsewhere:

- a. On or about August 15, 2014, MILRUD downloaded stock trading software from a computer server located in or around Carteret, New Jersey.
- b. On or about September 11, 2014, MILRUD caused \$5,000 to be wired from a bank account in China owned by a China-based entity to an account located in New Jersey.
- c. On or about January 8, 2015, MILRUD emailed a cooperating witness signed documents to establish an online bank account that would be used to transfer proceeds from the securities fraud scheme described herein.

In violation of Title 18, United States Code, Section 371.

**Count Two**  
**(Wire Fraud)**

On or about September 11, 2014, in the District of New Jersey and elsewhere, defendant

**ALEKSANDR MILRUD**

knowingly and intentionally devised a scheme and artifice to defraud, and to obtain money and property by means of materially false and fraudulent pretenses, representations, and promises, and, for the purpose of executing and attempting to execute such scheme and artifice, did transmit and cause to be transmitted by means of wire, radio, and television communication in interstate and foreign commerce, certain writings, signs, signals, pictures, and sounds, specifically, a wire of approximately \$5,000 from a bank account in China owned by a China-based entity to an account located in New Jersey.

In violation of Title 18, United States Code, Section 1343 and Section 2.

## **ATTACHMENT B**

I, Kevin Bradley, a Special Agent with the Federal Bureau of Investigation, having conducted an investigation and discussed this matter with other law enforcement officers who have participated in this investigation, have knowledge of the following facts. Because this Complaint is being submitted for the limited purpose of establishing probable cause, I have not included each and every fact known to me concerning this investigation. Rather, I have set forth only the facts which I believe are necessary to establish probable cause. Unless specifically indicated, all conversations and statements described in this affidavit are related in substance and in part.

### **BACKGROUND**

1. At all times relevant to this Complaint:
  - a. Defendant ALEKSANDR MILRUD resided in or around Ontario, Canada, and in or around Aventura, Florida.
  - b. Coconspirator #1 ("CC#1"), who is named as a coconspirator but not as a defendant herein, resided in or around Baldwin, New York, and previously worked for a broker-dealer registered with the United States Securities and Exchange Commission ("SEC").
  - c. A cooperating witness (the "CW") was the founder and owner of a registered broker-dealer located in New York (the "NY-BD"), and a broker-dealer located outside of the United States (the "Foreign-BD"). In or about July 2012, the CW began cooperating with law enforcement. The information provided by the CW has been corroborated through, among other things, consensually recorded calls and meetings, as well as through documentary evidence, including emails, trading records, and bank records. Accordingly, I believe the CW is a reliable source of information concerning the subject matters described herein.
  - d. Baxter International, Inc. ("BAX") was a public company located in the United States. BAX's stock was traded on the New York Stock Exchange ("NYSE"). NYSE's trade processing and data services were performed at its United States data center in Mahwah, New Jersey.
  - e. "Layering" or "spoofing" was a form of manipulative, high-speed stock trading. In a layering scheme, a trader places non-bona fide orders to buy or sell securities and then quickly cancels them before they are executed. The purpose of these non-bona fide orders is to move the price of a security up (in the case of non-bona fide buy orders) or down (in the case of non-bona fide sell orders) in an artificial manner, and to induce other market participants to buy or sell a security at a price not representative of actual

supply or demand. While the non-bona fide orders are pending, the trader simultaneously executes trades in an attempt to profit from the artificial movement of the share price that the trader has created. For example, in a layering scheme, a trader, using custom-programmed trading software, may simultaneously place a series of non-bona fide offers to sell a stock at successively lower prices (e.g., an offer to sell 100 shares of "Stock A" at \$10.00 per share, an offer to sell 100 shares of Stock A at \$9.99 per share, an offer to sell 100 shares of Stock A at \$9.98 per share, an offer to sell 100 shares of Stock at \$9.97 per share, etc.), and a bona fide offer to buy 100 shares of Stock A at \$9.97 per share. In this example, the purpose of the non-bona fide sell orders is to create a false appearance of sell interest in Stock A, drive the price of Stock A down, and to trick other market participants to execute against the trader's bona fide buy order at an artificially depressed price. Once the trader has acquired a position in Stock A at the artificially depressed price, the trader will cancel the outstanding non-bona fide offers, and then repeat the manipulation in the opposite direction. Specifically, the trader will simultaneously place a series of non-bona fide buy orders for Stock A at successively higher prices to create the false appearance of buy interest in Stock A, and a bona fide offer to sell Stock A at an artificially inflated price. Once the trader tricks market participants to execute against the trader's bona-fide sell offer, the trader will cancel all outstanding offers to reap the illegal profits from the sale. In a successful layering scheme the above-described trading is facilitated by custom-programmed software and occurs over the course of seconds, and is repeated by the trader on hundreds of occasions during a single trading day.

### **THE LAYERING SCHEME**

2. From at least as early as in or about January 2013 through in or about January 2015, MILRUD orchestrated an extensive and sophisticated international layering scheme that targeted U.S. securities markets and involved high-speed trading through numerous brokerage accounts. The scheme involved a number of overseas-based traders that MILRUD recruited and managed in China, Korea, and possibly elsewhere. According to MILRUD, the scheme has yielded millions in illicit profits to date. As explained below, MILRUD and his coconspirators have taken various steps to conceal their illegal conduct from law enforcement and regulators, including: setting up brokerage accounts in the names of foreign third-parties and entities that MILRUD controlled; using multiple trading accounts to carry out the manipulative trading so that the activity in each account, when viewed in isolation, would appear normal; and carefully selecting stocks with sufficient liquidity and trading volume to minimize the risk that their manipulative trading activity would raise the suspicion of market regulators and others.

**A. MILRUD Seeks the CW's Assistance in Furthering the Layering Scheme.**

3. In or around January 2013, MILRUD first solicited the CW's assistance in connection with the layering scheme. Thereafter, the two engaged in a number of consensually recorded calls and meetings. For example, on or about June 10, 2014, MILRUD met the CW at a restaurant in New York City, and during the meeting MILRUD explained his illegal trading strategies. Among other things, MILRUD admitted: (1) that he controlled approximately 60 percent of all China-based traders presently engaged in layering; (2) that his traders used various trading accounts that were not tied to MILRUD in any manner; (3) that his layering operation could generate millions of dollars in illicit profits; and (4) that, to enable his traders to place and cancel many orders quickly, he worked with a software company on programming "hotkeys" – shortcuts for placing and cancelling multiple orders quickly with few keystrokes.

4. Further, during a number of their meetings, the CW and MILRUD discussed MILRUD setting up trading accounts at the CW's Foreign-BD for use in his layering scheme. MILRUD agreed that the Foreign-BD would be an attractive venue for his trading activity because, among other reasons, he believed there was limited law enforcement and regulatory scrutiny in the location of the Foreign-BD and the Foreign-BD would soon have "self-clearing" capabilities, meaning that it would not have to rely on a third-party clearing firm to settle investment transactions, thereby limiting scrutiny of his activities by other entities. The CW also explained to MILRUD that the Foreign-BD used a special online trading platform and software that could be programmed in the manner MILRUD required for his illicit trading strategies (the "Trading Software").

**B. MILRUD Further Explains the Layering Scheme and Conducts a Live Demonstration.**

5. In or around August 2014, MILRUD agreed to open a trading account at the Foreign-BD to be used in furtherance of his layering scheme (the "Foreign-BD Account"). The CW stated that he would be the only representative of the Foreign-BD who would have access to the Foreign-BD Account. Thereafter, MILRUD traveled to the offices of the Foreign-BD to discuss the layering scheme and set up the Foreign-BD Account.

6. On or about August 15, 2014, in anticipation of the meeting at the Foreign-BD, the CW sent a link to a demonstration of the Trading Software to an email account that MILRUD controlled. MILRUD downloaded the Trading Software the same day from a computer server located in or around Carteret, New Jersey.

7. On or about August 27, 2014, MILRUD and the CW met in the CW's office at the Foreign-BD. The meeting was video and audio recorded. During the meeting, MILRUD explained his illegal trading strategies to the CW in great detail. Among other things, MILRUD stated that stock traders located overseas that he controlled simultaneously utilized at least two trading accounts to execute the layering scheme; one account was used to conduct the manipulative layering trading which MILRUD referred to as the "dirty work" and, as explained above, involves placing and later cancelling incremental orders to buy or sell stock for the purpose of artificially moving the stock price (the "Layering Account"), and another "clean" account was used to buy or sell the manipulated stock at a profit during the small window of time in which the stock price had been artificially moved by the "dirty" activity in the Layering Account (the "Profit Account"). According to MILRUD, his overseas traders logged into these accounts from different computers and different internet protocol ("IP") addresses so that it would not appear that the same individual was trading through the two accounts.<sup>1</sup>

8. For example, MILRUD explained that the trader would place numerous orders to sell a certain stock in the Layering Account, with each sell order decreasing in price in small increments (usually by a penny). The numerous sell orders in the Layering Account were intended to depress the price of the targeted stock. While those orders were being placed, the trader would nearly simulatenously begin placing orders to buy the same stock in the Profit Account, but at the lower prices created by the sell orders in the Layering Account. After some of those orders were filled and the trader had established a "long position" in the Profit Account (meaning the trader actually owned the shares), the trader would begin cancelling all outstanding orders in the two accounts. Thereafter, the trader would repeat the pattern in the opposite direction, entering and later cancelling consecutively higher buy orders in the Layering Account to gradually increase the stock price, thus allowing the trader to sell the recently acquired shares at a profit from the long position in the Profit Account.

9. According to MILRUD, his trading strategy only worked with stocks that were heavily traded and had high volume. MILRUD explained that his traders used a special computer program that helped them identify stocks that had the required trading volume and liquidity to facilitate their fast-paced layering activity. MILRUD also explained that his traders executed limited trades in any one stock and that the profit on each individual trade was kept intentionally low, generally \$20 to \$100 per trade. The layering scheme was

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<sup>1</sup> MILRUD emphasized that by using different computers, IP addresses, and other "layers" as further explained below, his traders were able to bypass certain automated fraud detection systems that the trading platforms had in place to prevent the very activity in which he and his traders were engaged.

profitable through repeated, fast-paced trades in a variety of stocks, with incremental profits per trade.

10. During the meeting, MILRUD expressly acknowledged that the primary purpose of his trading strategy was to create a false appearance of market interest in the targeted stock and to trick the investing public. Among other things, MILRUD stated, “[Market participants] see the volume and they see the orders, they are starting to come in ... and basically, we trade against them. We get them sucked into the stock.” At another point in the meeting, the following exchange occurred:

CW: So you start placing bids to buy, at a penny below .... So you have five orders at each penny for one hundred shares, two hundred shares. The purpose of that is to make it look like retail flow?

MILRUD: It looks like retail orders. Yes.

CW: So the point is to make it look like multiple clients wanting to buy this stock, that’s what it looks like, right?

MILRUD: I don’t know if multiple clients ...

CW: But if they see level two ... multiple orders, they don’t know that it’s one guy behind it. In reality, if it’s one guy who wants to buy two thousand shares, he will place an order for two thousand shares. So the point of it is ...

MILRUD: Yes.

CW: To make it look like 25 different people are trying to buy the stock right now.

MILRUD: Correct.

11. Later in the meeting, MILRUD explained that he wanted the Foreign-BD Account that he was in the process of setting up with the CW to handle the Profit Account trading; that is, the trading that buys and sells stock at a profit based on the manipulation that would occur in the Layering Account. According to MILRUD, the trading in the Profit Account, viewed in isolation, would appear as legitimate buying and selling of stocks. After explaining the layering technique, MILRUD stated, “Regular trading. If I didn’t tell you what I just told you, it would seem like regular trading – you would not know nothing of what I do.” The CW replied, “Will look just like regular buying and selling?” and Milrud responded, “Exactly. One hundred percent kosher. If I didn’t tell you everything behind it, you have no way of [knowing].”



12. Also during the meeting, MILRUD agreed to log into his trading platform using the CW's computer to show the CW his traders' activity in real time, and to explain it to the CW while it unfolded. Prior to the meeting, law enforcement provided the CW with a laptop computer (the "FBI Computer"), which included software that would record all activity and keystrokes on the computer. MILRUD logged into and remotely accessed his trading system using the FBI Computer. According to MILRUD, his overseas traders were controlling the orders and trades that he and the CW were observing on the FBI Computer. The CW then observed multiple real time trades in a number of different securities in both the Layering and Profit Accounts, and orders being placed and cancelled, while MILRUD narrated. The real-time layering activity that MILRUD showed the CW has been corroborated by trading records, as explained further below.

#### Example of the Layering Activity

13. The layering trading that MILRUD showed the CW using the FBI Computer during the August 27, 2014 meeting included trading in the stock of BAX. Consistent with MILRUD's description of the scheme and the trading activity illustrated on the screenshots captured by the FBI Computer, trading records associated with the brokerage account and trader identification numbers visible on the screenshots later obtained by law enforcement demonstrate the following coordinated, manipulative trading of BAX's stock in the Layering and Profit Accounts on or about August 27, 2014:

- Between approximately 10:42:54 AM and approximately 10:43:22 AM, MILRUD's trader placed in the Layering Account 51 orders to sell BAX stock, with an average order size of 171 shares per order, gradually decreasing the order price from \$75.32 per share to \$75.25 per share and placing multiple orders at each of the price levels along the way.
- While these layered orders were being placed, at approximately 10:43:09 AM, MILRUD's trader placed in the Profit Account four orders to purchase BAX stock at \$75.25 per share, each for 1,300 shares. After some of those orders were filled and MILRUD's trader had established a long position of 1,807 shares at \$75.25 in the Profit Account, the trader began canceling the outstanding orders in both accounts in a series of cancelations that continued from approximately 10:43:22 AM through approximately 10:43:29 AM.
- Of the total of approximately 8,700 shares that MILRUD's trader had offered for sale in the Layering Account between the start of the trading at approximately 10:42:54 AM and the change of

direction at approximately 10:43:30 AM, only 200 shares (that is, approximately 2%) were in fact sold, at the average price of \$75.27 per share; this 200-share “short” position was covered with a purchase of 200 shares at \$75.25 (that is, a total gain of \$4) before the trading reversed course at approximately 10:43:30.<sup>2</sup> By contrast, approximately 35% percent of the shares that the trader bid to buy in the Profit Account were in fact bought.

- Almost immediately after the above trading, MILRUD’s trader repeated the layering pattern on the other side of the market; that is, the trader placed numerous incremental orders to buy BAX’s stock in the Layering Account to gradually increase the stock price. Shortly thereafter, the trader entered numerous orders to sell BAX stock at the inflated prices in the Profit Account, realizing a profit on the previously established 1,807-share long position. After realizing a certain profit, the trader cancelled all outstanding orders.
- All of the trading on August 27, 2014 in the stock of BAX by MILRUD’s trader occurred within the course of a few minutes and generated a net profit of approximately \$54. Shortly thereafter, MILRUD’s trader moved on to the next stock, generating similar profits in a matter of minutes.

14. Following the August 27, 2014 meeting, MILRUD took additional steps to finalize the Foreign-BD Account for use in the layering scheme, including causing \$5,000 to be wired on or about September 11, 2014 from a bank account in China owned by a China-based entity to an account located in New Jersey that was controlled by an undercover law enforcement agent. The CW had previously explained to MILRUD that the money was necessary to provide initial funding to the Foreign-BD Account.

15. Further, on or about January 8, 2015, MILRUD sent the CW via email signed documents to establish an online bank account that would be

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<sup>2</sup> “Short selling” is the selling of a stock that the seller does not own. More specifically, a short sale is the sale of a security that is not owned by the seller, but that is promised to be delivered. When one shorts a stock, his or her stock broker will lend it to them, borrow it from the brokerage’s own inventory, borrow it from another one of the firm’s customers, or get it from another source. The seller receives the proceeds of the sale, but eventually has to “cover” the short by purchasing the stock and giving it back to the lending broker. If the stock price has declined in the intervening period of time, the seller makes a profit between the short sale price and the price that he or she paid to cover the short. Thus, short selling is commonly done when one believes a stock will decrease in price.

used to, among other things, transfer illicit trading profits to MILRUD and his traders.

**C. Trading Records Corroborate MILRUD's Admissions and Further Reveal the Scope of the Layering Scheme.**

16. Trading records relating to the Profit and Layering Accounts, both of which were owned by two different offshore entities, revealed trading patterns that were consistent with layering and MILRUD's explanation of the scheme. The records also reflected orders and executions that matched the orders and executions captured by the FBI Computer on or about August 27, 2014. These trading records, which cover the time period of June 2014 through September 2014, and only include activity by just the two trader identification numbers displayed in MILRUD's demonstration during the August 27, 2014 meeting, establish trading profits of approximately \$103,000 during that period.

17. Additionally, MILRUD has described to the CW in detail the illicit profits that his layering scheme generates. For example, during a consensually recorded call on or about December 15, 2014, the CW asked MILRUD to describe the profits that his traders would make through the Foreign-BD Account once it was active and operational. The CW told MILRUD that he needed to determine the increase in income that the Foreign-BD would generate from MILRUD's trading. The following exchange occurred:

CW: I just want to know, what would we make, full blown ...  
Assume I have everything you need.

MILRUD: Assume you have everything [I] need? Well, let me give you  
like a small number. Let's say, up to ten people. Small  
group. About one million.

CW: A month? For that month?

MILRUD: Yep. Yep.

CW: If we were to bring all your people, let's just say, March,  
March 1, we brought all your people over. Everything was  
perfect, March 1.

MILRUD: You don't even, you don't even, you don't even know how,  
you don't even. You're not even going to believe it. You  
know. But I don't know if you could handle all this.

CW: I believe you.

MILRUD: Are you sure you could handle all of this?

CW: That's why I'm going self-clearing. Listen, when I'm self-clearing, I have no buying power limitations. So, assume I have no buying power limitations. You could bring all your traders over and I have all the routes you need. What is, like, you know?

MILRUD: And no issues with, you know, no issues? Because, you saw what it would do. So, no issues, right? You know, no limitations on this and that, no limitations?

CW: I'm the one who controls that limitation when I'm self-clearing. There's no one in the middle.

MILRUD: Well, then let's put it this way. Easy, easy, easy, easy. With just a few small, small groups, which I want to put, like the best, so no issue and stuff like that. Like, ten million is like, you know, is like, just like we choose and pick and you know, sitting and doing very little to make sure. So, I don't know how far you want to go with it.

CW: I want to go all the way. Let's do it all the way. If we can make money for a year, and make a hundred million dollars in a year, and then if it doesn't work in another year then fine.

MILRUD: We can do crazy amount of numbers.

18. Later in the call, the CW again reviewed with MILRUD the expected profits and asked him how much they would make if there were no internal trading restrictions from the Foreign-BD, and if all of the other necessary aspects of the scheme were working. MILRUD responded between \$30 million and \$50 million per month. MILRUD then provided an example of a recent instance in which his scheme generated significant profits in a single day. He stated, "Just like a week ago, you should see the number. In one day, it was crazy, something just worked perfectly. Like perfectly worked. In one day it was like close to \$600,000. In one day." However, MILRUD explained that the profits are not always that high and usually fluctuate. MILRUD then stated, "On average, you're going to be very happy. We're all going to be very happy." Thereafter, the CW said, "So, like, on the absolute low end, I can expect at least a million a month extra coming in. And, on the high end, it can get between thirty and fifty million a month." MILRUD responded, "Oh yeah. Oh yeah."

**D. MILRUD's Efforts to Avoid Detection from Regulators and Law Enforcement.**

19. During several recorded communications with the CW, MILRUD discussed various methods to avoid detection from regulators and law enforcement. For example, MILRUD emphasized that conversations about "business" over telephones, emails, text messaging and other online forums were not safe, and that they should only discuss business in person. Thus, during a consensually recorded call on or about June 12, 2014 in which the CW asked MILRUD questions pertaining to the layering scheme, MILRUD stated, "The phone calls, and this and that, and Skype, it's just not good for us. If I'm next to you, you know, it's fine. But, unfortunately we're not next to each other and it's just better for all of us." Likewise, during an earlier consensually recorded call on or about June 6, 2014, the CW began asking MILRUD questions about his trading strategies and MILRUD responded, "Come and see me or I'll come see you. I'll tell you more. You know, through the phone ... it's like holding this phone is burning my ear. It's so hot. I don't like to discuss over the phone, you know."

20. MILRUD also discussed with the CW the importance of using "layers" to distance themselves from the unlawful activity. Specifically, MILRUD told the CW that they should communicate with each other through third-party liaisons. To this end, MILRUD introduced the CW to CC#1, an individual who MILRUD described as a business partner located in New York who would communicate with the CW on a daily basis regarding the layering scheme. MILRUD orchestrated a meeting between the CW and CC#1 on or about June 19, 2014, at a restaurant in White Plains, New York. During that meeting, the CW and CC#1 discussed MILRUD's trading operations in general, the illegal nature of MILRUD's trading strategies, the importance of having numerous layers between individuals involved in illegal activity (i.e., a middleman such as CC#1), and the benefits of using the Foreign-BD in connection with the scheme.

21. Another "layer" that MILRUD explained to the CW involved using multiple trading and clearing firms and accounts to execute a single securities transaction. According to MILRUD, this technique would make it difficult to reconstruct the transaction and would be akin to "shredding," meaning destroying evidence. Specifically, during a consensually recorded meeting on or about October 8, 2014 at the offices of the NY-BD between the CW, MILRUD, CC#1 and an undercover law enforcement agent posing as CW's business partner, the CW discussed the increased level of scrutiny that the SEC, United States Department of Justice, and other government agencies were placing on high frequency and other manipulative trading schemes. The CW then said that he wanted MILRUD's trading to be done "right" so that the CW's "fingerprints" were not on it. The following exchange took place:

MILRUD: You know, I never think it's going to be done what you think [is] "right," in my opinion. It's never going to be to the point where it is done, done right, right. If you are trying to build a wall that nobody can climb, you will disillusion yourself.

CW: But I want to build a wall of plausible deniability. Like, say, listen, I didn't know. I didn't have anything to do with it. Versus like, [the CW], that's your twenty-five thousand, and then it was sent there, and then it was sent there, and then the trades happened there. And then there is no way to deny it.

MILRUD: The difference between this, this ... and what they are doing. That's why everything changed on our side. Multi-clearing. Multiple ... one trade will be done with different locations. At the end of one trade, it will be done not in one place. One part there, one part there, one part there. Like you are shredding. Try to put that together. And if you use everybody different, all different software ....

CW: Right, so you just spread it out across different computers, different users, different software, and it will be very hard to build a picture.

MILRUD: Right. So one trade, one thousand dollar profit, for example. Instead of it all done in one account, with one clearing [firm], with one [broker-dealer], with one trader, it will be done piece with you, piece with this, piece with that. Maybe cost more, but ...

CW: Right. There is a cushion.

MILRUD: There [are] layers between[.]

22. In addition to describing his and his coconspirators' use of multiple trading accounts, computers, third-parties and other layers, during the same meeting, MILRUD discussed his use of middlemen to transfer funds. MILRUD stated, "Before it gets to me, there are so many layers, you cannot imagine. I will send money out – and by the time I get it, I have no relationship to me [sic]." MILRUD explained that he wires funds to offshore bank accounts and has a "guy" who picks up the funds and delivers suitcases of cash to MILRUD in Canada. Referring to the large amounts of cash, MILRUD said, "I need it. I need to hide." When the CW asked MILRUD what he does with the cash, MILRUD said, "I use it. I buy stuff." MILRUD stated that this was "better than paying taxes."