While regulators are emphasizing the role a single trade played in kicking off the May 6 "flash crash," some are arguing that takes the focus away from the broader, underlying causes of the stock market's failure that afternoon.

Gary Gensler, head of the CFTC, laid out possible regulatory responses to the May 6 'flash crash.' Neal Lipschutz and Jenny Strasburg discuss. Also, Wendy Bounds discusses the fading art of handwriting, pointing out that new research shows handwriting can benefit children's motor skills and their ability to compose ideas and achieve goals throughout life.

The flash crash put Wall Street regulation back on center stage and we've had successive rounds of it, but as Simon Constable asks, "Are we any better off?" WSJ's Dennis Berman explains why we're not.

In a joint report released last Friday by the Securities and Exchange Commission and the Commodity Futures Trading Commission, regulators described at length how an order to sell stock-futures contracts by a mutual-fund company was the spark for the plunge in stocks, which saw the Dow Jones Industrial Average collapse by 700 points in just a few minutes.

The firm—which the report didn't name but is Waddell & Reed Financial Inc., according to people familiar with the trading—chose to sell a big number of futures contracts by using computer programs known as trading algorithms.

Such algorithms, which can essentially take the place of a human broker in deciding how to spread out the purchases or sales of a stock, are common on Wall Street. But regulators say that, given the size of Waddell’s trade and the market conditions, the particular choice of algorithm by Waddell's trading desk fueled the selloff.

Among the issues some point to as having been downplayed by the regulators in comparison to the Waddell trade were: data-feed concerns that prompted many players to pull back from
trading; rules set by the exchanges for canceling trades; rules allowing so-called stub quotes to buy stocks at a penny; and the slowing down of trading in many stocks at the New York Stock Exchange while other venues continued to trade at full speed.

Gary Gensler, chairman of the Commodity Futures Trading Commission, talks to reporters Monday after a speech in Washington.

In a speech Monday, CFTC Chairman Gary Gensler characterized Waddell's trading as like driving on "autopilot into a ravine" and raised the question of whether there should be stepped-up regulation of algorithmic trades.

Mr. Gensler questioned whether there should be obligations for brokers similar to requirements currently in place for exchanges, such as curbs on the maximum size of an order and price bands. He also asked whether both brokers and customers should have an "obligation to monitor and make nondisruptive trading judgments." He said he hoped by stating the idea publicly the commission and industry would consider it.

Waddell declined to comment on Mr. Gensler's comment or the joint report.

But others questioned regulators' emphasis on the Waddell trade, saying it overlooked bigger problems.

"The trigger is a small part of the story...and we should keep in mind that a trigger is not a cause," wrote Ian Domowitz, managing director at Investment Technology Group.
The bigger issue, said Mr. Domowitz and others, was the degree to which market participants of all stripes pulled out of the market, causing the liquidity crisis.

Trading algorithms are today part of the standard tool kit offered by brokerage firms for professional traders. They are especially useful for institutional investors such as mutual funds that need to move big blocks of stock. At their most basic level, traders can choose among algorithms that factor in trading volume, changes in price and the amount of time desired to complete a trade.

According to some, the report underscored the brittleness of the electronic markets and the need for measures to prevent any one trade from having so profound an impact.

"Somebody could always put on a trade that's too big," says Larry Leibowitz, chief operating officer of NYSE Euronext, which operates the New York Stock Exchange. "The market should be able to handle a bad trade in an appropriate way, not by becoming disorderly."

Waddell, it turned out, had placed an order to sell a total of 75,000 E-mini contracts—futures contracts the mimic the movement of the Standard & Poor's 500-stock index—using an algorithm offered by Barclays Capital, according to people familiar with the trade.

The trading was based solely on the amount of volume in the futures market. Waddell broke the total order down into three parts: 25,000 contracts each with the selling to be kept at less than 3% of volume for each. That meant Waddell's trade would track 9% of the trading volume.

The SEC noted that only two "sell" orders in the previous year had been executed at equal or larger size—one of which had also been the from same fund company. However, the program would have dribbled the order out, and other traders wouldn't have known the trade was so big, therefore wouldn't have been alarmed. No single order hit the 2,000-contract limit imposed by the Chicago Mercantile Exchange, according to a person familiar with the trade. And Waddell did much of its selling once the market had recovered.

While traders said it wasn't uncommon to place a trade based on volume, many questioned the wisdom of doing so in the middle of a steep market decline. When Waddell placed the order, the Dow was already down 276 points.

The trader who sent that order through the algorithm "should have absolutely spread it over more time," said John Netto, president of M3 Capital, a high-frequency trading firm that is active in E-minis. "It's like a guy coming into a kitchen who wants to bake a cake, but he's using a frying pan. He's going to light the kitchen on fire."

Still, Mr. Netto said there shouldn't be limits on what a trader can sell. "If someone owns the underlying position, for whatever reason they want to sell, however ill-advised the method of doing that, that's the right of the market participant," he said.

But the futures selling was just "the match" that ignited the already combustible structure of the stock market, says Harold Bradley, who was active in industry discussions about market structure while at fund company American Century Investments and is now chief investment officer at the Ewing Marion Kauffman Foundation.
Mr. Bradley says the idea of spreading out a trade based on volume isn't new. Even on the floor of the New York Stock Exchange, he says, accounts would use "participation orders" that operated the same way.

At the CME Group, home to trading of E-minis, there has been pushback against the idea that the single trade was responsible for the sudden crash. CME noted in a statement that the 75,000 contracts accounted for just 1.3% of the total volume of E-mini contracts that day.

Bernard Donefer, a professor at Baruch College in Manhattan, says the stock market has become so complicated that assigning blame for the "flash crash" reminds him of the butterfly effect in chaos theory, where a butterfly flapping its wings leads to a tornado.

"What we have here is somebody doing what's in the best interest of their firm, and there was a cascade from there because we have such a complex market structure," says Mr. Donefer. "So do we blame the butterfly?"

—Jenny Strasburg, Kara Scannell, Sarah N. Lynch and Donna Kardos Yesalavich contributed to this article.

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