TSE Mulls Emergency Steps To Prevent Turmoil After Mizuho Sec Blunder

2005/12/09, The Nihon Keizai Shimbun, page 0, 424 words

TOKYO (Nikkei)--The Tokyo Stock Exchange is considering taking emergency measures to prevent market confusion following a major mistake by Mizuho Securities Co. on Thursday when handling a client's sell order for J-Com Co. (2462) shares.

The steps include confirming the identities of all the traders involved and consulting with related organizations, including Japan Securities Clearing Corp., a company engaged in settling stock transactions, sources at the TSE said.

The exchange also appears to be mulling having Mizuho Securities give cash, rather than certificates of J-Com stock, to investors who placed buy orders for the newly listed shares.

The TSE has already halted trading in J-Com stock. It is quite rare for trading in an issue to be halted the day after it debuts on the exchange.

J-Com is a temporary staffing and sales assistance agency for companies in the telecommunications industry.

Mizuho Securities President Makoto Fukuda told a press conference Thursday night that the brokerage had already bought back most of the 610,000 J-Com shares it had mistakenly sold earlier in the day. But market sources say the securities house is still unable to buy back about 100,000 shares, or about seven times J-Com's 14,500 outstanding shares.

Mizuho Securities brokered the sell order at a price much lower than requested by the customer, so the bid price for J-Com shares was expected to climb continuously on Friday on a wave of buy orders from investors expecting a large volume of buyback orders from the brokerage.

The TSE has suspended transactions in J-Com shares to prevent the issue's lopsided supply-demand balance from adversely affecting overall stock price formation in the market. The bourse has yet to decide whether to allow J-Com shares to resume trading on Monday.

Mizuho Securities is expected to have difficulty buying back enough J-Com shares to service the investors who ordered to buy them.

Tomio Amano, the TSE's managing director, suggested Friday morning that the bourse may take emergency steps, saying, "We're concerned about a worst-case scenario in which Mizuho Securities will be forced to shoulder ever-growing costs (to buy back J-Com shares)."

On Thursday, the brokerage mistook a client's sell order for one J-Com share at 610,000 yen for one selling 610,000 shares at 1 yen each, placing the incorrect order with the TSE's transaction system.

The TSE system accepted it because there is no price limitation on newly listed stocks, like J-Com, until an opening price has been set.

J-Com shares traded at 672,000 yen for the first time later on Thursday.

(The Nihon Keizai Shimbun Friday evening edition)

Flubbed Sell Order Sends J-Com Shares On Roller-Coaster Ride

2005/12/09, The Nihon Keizai Shimbun, page 0, 346 words

TOKYO (Nikkei)--An erroneous sell order placed by Mizuho Securities Co. marred J-Com Co.'s (2462) market debut Thursday, resulting in a tumultuous day for the stock.

J-Com began bid-only when trading at the Tokyo Stock Exchange opened at 9 a.m. The bids gradually inched higher because of an absence of sell orders. And with the recent popularity of initial public offerings, many market participants had expected the stock to open well above its offering price of 610,000 yen.

But then an order to sell 610,000 shares of J-Com for 1 yen apiece hit the market. This came as a major surprise, given that the publicly offered shares totaled just 3,000. J-Com shares recorded an opening price of 672,000 yen at 9:27, but tumbled to a limit-down level of 572,000 yen in just three minutes.

Many market participants quickly realized that the sell order was a mistake and that the brokerage had intended to sell one share at 610,000 yen.

Dedicated online bulletin boards soon lit up with speculation about the unusual order. Betting that the brokerage that had placed the order would be forced to short-cover the shares, individual investors and others began snapping up the stock. This eventually pushed up J-Com's share price to a limit-up level of 772,000 yen. The stock remained bid-only afterward.

J-Com's topsy-turvy movements soon spread to the overall market. Brokerage shares were sold, and buyers stayed on the sidelines due to speculation that the securities company that made the error would be forced to sell its other shareholdings to offset the loss.

The brokerage in question, Mizuho Securities, now faces the daunting task of getting J-Com shares to investors that responded to its sell order. Because the shares needed to cover the order far exceed the shares in the market, it may be forced to buy shares back for more than the price at which they were sold. Assuming that it suffers an average 100,000 yen loss on each share, the brokerage could incur a loss of 61 billion yen for the mistaken order.

(The Nihon Keizai Shimbun Friday morning edition)

TSE Eyes Emergency Provision To Settle Mizuho's J-Com Order

2005/12/10, The Nihon Keizai Shimbun, page 0, 312 words

TOKYO (Nikkei)--The Tokyo Stock Exchange and its affiliate trading settlement entity are considering invoking an emergency provision to settle the massive erroneous sell order that Mizuho Securities Co. placed Thursday for J-Com Co. (2462) shares, The Nihon Keizai Shimbun learned Friday.

The TSE and Japan Securities Clearing Corp. are scrambling to prevent turmoil in the stock market as it is inevitable that Mizuho Securities will fail to secure J-Com shares that it has to deliver to investors. This would mark the first application of the provision since the settlement entity's establishment in 2002.

Japan Securities Clearing Corp.'s rules state that if a company is unable to execute a settlement due to such factors as natural disasters, extreme changes in the economic environment, or a stock certificate shortage, the settlement terms can be changed.

The TSE believes Mizuho Securities' case falls under the certificate shortage category. On Thursday, the brokerage placed an erroneous order to short-sell 610,000 shares of J-Com for 1 yen apiece. Although Mizuho immediately realized that it had made a mistake, it was unable to short-cover all the shares that day and still needs to have nearly 100,000 shares for delivery to investors by Tuesday's settlement date, according to sources. The number of needed shares far surpasses J-Com's 14,500 outstanding shares.

The provision would enable Mizuho Securities to make cash payments in lieu of the J-Com shares to investors who purchased the stock. In addition, the brokerage would be able to extend the settlement beyond Tuesday.

The TSE will also work with brokerages to determine who bought the J-Com stock from Mizuho Securities. Nomura Securities Co. is said to have purchased 1,000 shares, while Morgan Stanley owns 4,522. But because a number of individual investors were also buyers, the TSE plans to work on identifying the buyers and then flesh out settlement measures.

(The Nihon Keizai Shimbun Saturday morning edition)

TSE To Forcibly Settle Mizuho Sec's J-Com Order

2005/12/11, The Nihon Keizai Shimbun, page 0, 322 words

TOKYO (Nikkei)--The Tokyo Stock Exchange and its trading settlement affiliate, Japan Securities Clearing Corp., will invoke an emergency provision to forcibly settle the massive erroneous sell order that Mizuho Securities Co. placed Thursday for J-Com Co. (2462) shares by having the brokerage make cash payments to investors who purchased the stock, in lieu of actual shares, The Nihon Keizai Shimbun learned Saturday.

The TSE will also take disciplinary measures against the brokerage unit of Mizuho Financial Group Inc. for the market turmoil it caused by placing the mistaken sell order for the stock, which debuted last Thursday on the exchange's Mothers market.

Japan's largest securities exchange may order the brokerage to submit a report on the steps it plans to take to reform its operations as well as a temporary suspension of its trading operations.

The TSE believes there are defects in the securities firm's order placement system and that it was delinquent in disclosing information to the public after the trading mistake took place.

With settlement of the purchases scheduled for Tuesday, the TSE and Japan Securities Clearing Corp. will make a formal decision to invoke the emergency provision on Monday.

The hardest challenge will be to determine a settlement price for the shares. They cannot refer to the stock's long-term price movements because the fiasco happened on the issue's first day of trading.

Some market insiders expect the settlement price to be set at either the stock's Thursday's close of 772,000 yen or the price at which each investor purchased the shares. Payment of a premium by Mizuho Securities is also being discussed.

It is possible that institutional investors will be asked to accept a cash settlement and for individuals to be given the shares they bought, analysts said.

Mizuho Securities short covered a certain number of J-Com shares, but still needs to buy back around 100,000 to settle all of the purchase contracts.

(The Nihon Keizai Shimbun Sunday edition)

Mizuho trading fiasco rattles TSE --- Broker's typo costs firm 27 billion yen, prompts huge decline at bourse

2005/12/12, THE NIKKEI WEEKLY, page 5, 715 words

A botched order for shares of J-Com Co. by a Mizuho Securities Co. trader threw the Tokyo stock market into turmoil on Dec. 8, resulting in the Nikkei Stock Average's third-largest decline this year. Mizuho Securities said that it suffered a 27 billion yen ($223 million) loss as of Dec. 8 as a result of an erroneous sell order placed on a large number of shares of J-Com, which made its market debut the same day. The Nikkei average shed 301.30 points to end the session at 15,183.36 on that day, but recovered sharply to 15,404.05 on Dec. 9. The value of trading on the Tokyo Stock Exchange's first section reached 4.64 trillion yen on Dec. 9, breaking through the 4 trillion yen barrier for the first time ever.

The brokerage, a unit of Mizuho Financial Group Inc. member Mizuho Corporate Bank, received an order Dec. 8 morning from a customer to sell one J-Com share for at least 610,000 yen. The employee handling the transaction mistakenly input an order into the TSE system to sell 610,000 shares for at least 1 yen apiece. J-Com is a temporary staffing and sales assistance agency for companies in the telecommunications industry.

The sell order, which was more than 40 times J-Com's outstanding 14,500 shares, caused the stock to nose-dive.

Mizuho Securities tried to cancel the order after realizing that it had been placed incorrectly, but could not head it off in time. The issue recorded an opening price of 672,000 yen, a 10% rise from its offering price of 610,000 yen. But following Mizuho Securities' sell order, J-Com's share price went limit-down to 572,000 yen.

The brokerage did not have any J-Com shares on hand. With the order attracting many eager buyers, the brokerage will be forced to hand over stock certificates to investors that placed buy orders. So Mizuho Securities subsequently placed buy orders for J-Com shares, helping to push up the issue's price to a limit-up level at 772,000 yen.

It succeeded in covering short positions for about 500,000 shares but was unable to secure the roughly 100,000 shares that remained. The brokerage needs to complete the rest of the short-covering, a factor that could cause its losses to balloon even further.

Short-covering nearly seven times the amount of an issue's outstanding stock will be a huge task.

Market speculation as to which brokerage placed the unintended sell order sparked selling in brokerages shares on Dec. 8.

At a news conference Dec. 8, Mizuho Securities President Makoto Fukuda emphasized that the company will not have any problem with day-to-day funding as a result of the incident. The brokerage's shareholders' equity topped 380 billion yen as of Sept. 30.

Warning signs

Normally, brokerage trading systems will automatically stop an order in which prices deviate sharply from real prices or if it greatly exceeds the total number of outstanding shares. The Mizuho Securities employee who handled the order, however, is said to have overlooked the warning signs.

The TSE system accepted it because there is no price limitation on newly listed stocks, like J-Com, until an opening price has been set.

The TSE is considering taking emergency measures to prevent market confusion following the major mistake by Mizuho Securities. The steps include confirming the identities of all traders and investors involved and consulting with related organizations, including Japan Securities Clearing Corp., a company engaged in settling stock transactions.

The exchange also appears to be mulling having Mizuho Securities give cash, rather than certificates of J-Com stock, to investors who placed buy orders for the newly listed shares.

The TSE halted trading in J-Com stock on Dec. 9. It is rare for trading in an issue to be halted the day after it debuts on the exchange.

The TSE has seen other substantial order errors in the recent past. In 2001, then UBS Warburg (Japan) Ltd. placed an incorrect order for Dentsu Inc. shares, which had just debuted. Instead of the correct 16 shares at 610,000 yen, the brokerage's order called for 610,000 shares at 16 yen. The same year Deutsche Securities Ltd. erred when it input an order to sell 90,000 shares of Isuzu Motors Ltd. as 90 million shares.

Both errors were also the result of brokerage employees punching in incorrect numbers and overlooking on-screen cautions.

UBS Sec, 5 Other Brokerages Set To Return Proceeds From J-Com Trades

2005/12/20, The Nihon Keizai Shimbun, page 0, 305 words

TOKYO (Nikkei)--UBS Securities Japan Ltd. and five other brokerages on Tuesday stated their intention to return the windfall profits they secured from an erroneous sell order placed by Mizuho Securities Co. for J-Com Co. (2462) shares.
The six brokerage houses made the remarks at the ruling Liberal Democratic Party's panel on corporate accounting the same day.
The Japan Securities Dealers Association has proposed that they place the proceeds into an investor protection fund.
UBS Securities Japan is said to have earned about 12 billion yen from its trading of J-Com shares on Dec. 8, when the company went public on the Tokyo Stock Exchange's Mothers market for start-ups.
The UBS AG group firm said that although it received a large amount of buy orders for J-Com shares from the group's overseas units shortly after the erratic order was placed on Dec. 8, its Tokyo branch soon noticed that it had bought more J-Com stock than the total number of the firm's outstanding shares, and immediately stopped such trading.
Susumu Omori, the branch's manager, said, "Our orders should not have been accepted at the time. In such an abnormal case, a stock exchange should take emergency measures like suspending trading."
According to Credit Suisse First Boston Securities (Japan) Ltd., it asked the TSE at 10 a.m. whether Mizuho Securities' sell order was a mistake but was unable to confirm it.
Morgan Stanley Japan Ltd. and Nikko Citigroup Ltd. said they plan to restrict their stock transactions beyond the size of a company's outstanding shares.
An official at Nomura Securities Co. said, "We want to review our trading rules and processes."
Referring to a plan to return the proceeds, Akio Katsuragi, representative of Lehman Brothers Japan Inc., said, "It is important to give stockholders a sufficient explanation about the move."
(The Nihon Keizai Shimbun Tuesday evening edition)

JSDA To Seek Voluntary Return Of Profits From J-Com Sell Order

2005/12/21, The Nihon Keizai Shimbun, page 0, 233 words

TOKYO (Nikkei)--The Japan Securities Dealers Association plans to ask brokerages to contribute their proceeds from this month's erroneous sell order by Mizuho Securities Co. for J-Com Co. (2462) shares to the Japan Investor Protection Fund, said Chairman Hiroshi Koshida at a news conference Tuesday.

Brokerages that profited from the botched order "should voluntarily contribute the proceeds," he said.

Koshida blamed the bungled sell-order on an order-placing mistake by Mizuho Securities Co. and flaws in the Tokyo Stock Exchange's trading system. "It is regrettable that this resulted in such a serious situation," he noted.

In response to growing criticism of the brokerages that profited from the order, the Japan Securities Dealers Association plans to establish a framework to facilitate the contribution of proceeds. The UBS group and some others who profited have indicated their willingness to contribute their proceeds.

The brokerage industry body is also considering setting up a special in-house account to accept the funds. But whether the brokerages will contribute their proceeds "is up to each company," said Koshida.

Separately, he cited Mizuho Securities information disclosure after the botched order as inadequate. "Share prices plummeted after the market became rife with speculation; the brokerage needed to disclose information in a more timely manner," according to Koshida.

The association will establish a working group that will look at ways to prevent erroneous stock orders from recurring.

(The Nihon Keizai Shimbun Wednesday morning edition)

INSIDE REPORT: Series of errors led to fiasco

2005/12/26, THE NIKKEI WEEKLY, page 8, 830 words

Mizuho Securities' erroneous sell order for J-Com Co. shares incurred a disruption that will go down in the history of Japan's securities business. The simple press of a button gave rise to a loss of 40 billion yen ($340 million), leading to the first cash settlement in 55 years and forcing the president of the TSE into resigning.

The market was buffeted by an incident that could only be found in a movie or a novel. It was an "accident that must not occur" that happened in an age when securities investment has become commonplace among individuals.

At 7 a.m. on Dec. 9, the morning after the erroneous order was placed, employees of Mizuho Securities assembled in the company's trading room in Tokyo's Otemachi district.

"I want you to attend to your routine work calmly," said Keisuke Yokoo, the company's deputy president, to the employees who packed the room. He explained the development of the erroneous order and asked them not to become unsettled.

At about the same time, executives of Mizuho Securities were in an emergency meeting. "I suspect the TSE's system had a problem after all," said one executive. "We should urge them to investigate the matter again," another responded.

Everyone present at the meeting was dissatisfied with the bourse, which had stated definitely the previous day that there were no flaws.

Mizuho Securities, which processed a sell order for one share at 610,000 yen wrongly as 610,000 shares at 1 yen, made the primary fatal mistake. Many say that a system that compulsorily stops abnormal orders would not have allowed this to occur. However, the TSE also committed a series of blunders.

The TSE's computer system accepted the abnormal sell order that exceeded the number of outstanding shares as it was. An official at the bourse's trading system department said that if they set an upper limit on acceptable numbers of shares ordered for each issue, the response speed would be slowed by the increased load. The TSE, which placed priority on speed, lacked a disposition to "prevent abnormal orders." This was the second mistake.

The third mistake was that Mizuho's cancel order was not accepted. A latent defect in the TSE system built by Fujitsu Ltd. in May 2000 surfaced at the crucial time.

The fourth and fifth mistakes concern bungles in market management and information disclosure. On Dec. 8, the bourse did not suspend trading of J-Com shares in the unusual situation. Mizuho Securities did not reveal the facts until after trading closed, although financial issues plunged across the board on rumors of "losses due to a botched order." These two mistakes were errors of omission.

Why did five errors occur one after another: a careless mistake, system imperfections and errors in market management? A Nomura Securities Co. executive said that the incident was "evidence that inattention had spread in the securities industry." It was not until the night of Dec. 11, three days after the incident, that the TSE admitted it was at fault. It could not avoid criticism that its crisis

management had become lax amid brisk trading in the market.
On the just over 96,000 shares Mizuho Securities was unable to buy back, the "trump card" of cash settlement was invoked and the problem of the botched order has passed a critical point. However, the shock waves have not yet subsided.
The UBS group, in the same building as Mizuho Securities, earned the highest profit of 12 billion yen by trading J-Com shares on Dec. 8. After Financial Services Minister Kaoru Yosano commented that taking advantage of the error "is not a beautiful story," the Japan Securities Dealers Association decided to ask securities firms that gained profits relating to the wrong order to return the profits, but the decision has not met with a harmonious response.
Complaints are being heard from smaller brokerages: We did not violate the law. Is the market not for seizing an opportunity to make a profit?
Securities companies that gained profits from J-Com shares number about 20-25. Not all are large or foreign brokerages that can easily give up the profits to avoid criticism.
The TSE and Mizuho Securities will soon start discussing how to share the 40 billion yen loss between them. Even if securities firms suffer losses from stock trading, the bourse does not have the obligation to compensate them for the losses unless they are the result of its deliberate act or gross negligence, according to the stock exchange's rules.
Mizuho intends to blame the TSE for "gross negligence" related to its faulty system, but expects difficult negotiations to solve the problem.
The FSA on Dec. 22 issued a business improvement order to Mizuho Securities following its mistake in placing a sell order for J-Com shares.
The FSA issued a business improvement order to the TSE on Dec. 14, telling it to work out measures to respond to all kinds of contingencies and submit a business improvement plan to the agency by Jan. 31.
