

# Unexpected Pitfalls of the Bullish Stock Market

## – System Snags Disrupt the Tokyo Stock Exchange –

Photo: The Mainichi Newspapers

**A**N unexpected pitfall was found on the Japanese stock market which had recovered its bullishness. A series of system failures hit computerized stock transactions on the Tokyo Stock Exchange (TSE), leading to a temporary trading halt and extensive damage from an erroneous order. The TSE was speeding up all-out checks of its computer system and launched studies to build up the most advanced next-generation computer trading system in the world.

The first trouble occurred in November 2005. The computer system malfunctioned for about three hours, resulting in a complete halt to transactions in a total of 2,520 stocks and convertible bonds (CBs). The breakdown was caused by a defect in a computer program which had been developed as part of the project to upgrade the TSE's trading system capacity. The upgrade was designed to cope with a surge in online stock transactions by individual investors, which had led to waves of hectic trading volume surpassing 3 billion shares a day.

Another problem hit the TSE about a month later. Mizuho Securities Co., Ltd. placed an order to "sell 610,000 shares



The TSE's board was unable to display prices because of a computer system failure

of J-COM stock for ¥1" when it should have been a single share for ¥610,000. J-COM Co., Ltd. is a recruitment agency whose stock was newly listed on the TSE. After it realized the blunder, Mizuho tried to cancel the order but was blocked by a defect in the TSE's computer system. Mizuho lost ¥40.7 billion in only 10 minutes or so.

A loss in market confidence may lead to a shrinkage in buy orders for Japanese stocks from abroad. It may also undermine the government's policy to revitalize the economy by converting personal financial assets, which are estimated at ¥1,400 trillion, from savings to investment. With a strong sense of crisis, the Financial Services Agency issued a business improvement order to the TSE to prevent a recurrence of similar problems, and the president and CEO of the TSE, Tsurushima Takuo, and several board members resigned to take responsibility for the series of system failures. The selection of Tsurushima's successor was shelved, and Nishimuro Taizo, the chairman of the TSE, concurrently

assumed the presidency for the time being to tackle reforms of the TSE to restore investor confidence.

Nishimuro served as president and chairman of electronics giant Toshiba Corp. He once assumed the Japanese chairmanship of the Japan-US Businessmen's Conference. Nishimuro has already spelled out a chain of TSE reform plans: recruiting a chief information officer from outside to control overall computer system affairs, launching off-hours trading in the early morning and at night to disperse surging online transactions by individual investors, and opening the TSE's computer system to local stock exchanges in Osaka, Nagoya and other cities with its next-generation computer system, which will be completed as early as 2008, to effectively standardize computer systems among Japan's stock exchanges. Nishimuro is the first TSE head from the private sector in its nearly half a century of history. The future of Japan's stock market depends on whether the TSE can be reborn through the reform efforts led by Nishimuro.

### COMING UP

"Japan's small and medium-sized enterprises (SMEs)" will be the theme of the next issue of Japan Spotlight. With the rapid growth of the Chinese and Indian economies, it may appear that Japan's influence in the industrial sector is on the decline, but there are many Japanese SMEs that have developed world-class technologies and products. Our writers will examine the role of SMEs, which are continually expanding their businesses in various fields, and review their new products and services. We will also report on female SME entrepreneurs.