Wrong order slams Mizuho's finances

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It might have been an innocuous mistake in any other industry. But a single mistake in what should have been a straightforward sell order by a broker led the Japanese stock market to tumble Thursday, heightening fears among some analysts that excessive computerization makes bourses much more vulnerable to technical glitches and basic human error even as global bourses strive to become ever faster and more integrated than ever.

Japanese brokerage giant Mizuho admitted that the wrong order was initially placed due to a basic inputting error by one of its dealers. Yet that simple mistake quickly ballooned into triggering some of the year's biggest losses on what has been a bullish year for the Tokyo bourse, and it has triggered an investigation into how and if similar mistakes can be stopped from here on out.

Early in the day Mizuho had placed a sell order for 610,000 shares, or about $3 billion's worth of stock, in J-Com, an Osaka-based personnel recruitment and placement company that was making its debut on the exchange that day. The mistake occurred as the brokerage said it would sell 610,000 shares in the company for 1 yen, or about a penny, each instead of stating that it would sell one share for 61,000 yen, or about $600 per share.

The problem was that that order would have represented 41 times more than the company's actual outstanding stock. In short, it would have been impossible to execute such an order even if Mizuho really did want to go through with it, given that it had only sold 2,800 shares at its initial public offering and had 14,000 outstanding.

That obvious mistake did not, however, stop J-Com's shares from plunging by its daily fluctuation limit of 100,000 yen to the day's low of 572,000 only half an hour after the company's shares started the day's trading. But once the order was seen as a mistake on the part of the brokerage house, J-Com's shares quickly bounced back and rose to its daily limit of a high of 772,000 yen, where it stayed until the closing bell.

Still, the problem escalated beyond what should have been simply a confusion about J-Com's stock value, as Mizuho did not own up to its mistake until after the Tokyo Stock Exchange closed for the day. In the meantime, investors started to sell off brokerage shares as they speculated that Mizuho would post huge losses as a result of its error. That fear led to a sell-off in securities equities in general, which then escalated to a broader market sell-off.

In a statement released after market close, Mizuho said, "We deeply regret having caused such a big problem. ... We are investigating what happened, and discussing with the exchange how to handle the issue."

Just before midnight Thursday, meanwhile, the head of Mizuho Securities Makoto Fukuda held an emergency news conference at the Tokyo Stock Exchange and told reporters that the brokerage expects to post about $232.20 million (27 billion yen) in losses.

Fukuda said that there were three main reasons for the wrong order to go through, namely a basic computer input error, followed by the failure of its system to spot the mistake and problems in taking back the wrong order once the company discovered the error.

In the end, the benchmark Nikkei-225 index slumped 1.95 percent

Thursday, its third-largest single-day decline this year, to 15,183.36, with over 80 percent of shares listed on the first section of the Tokyo Stock Exchange retreating.

Some critics have pointed out that while the Mizuho dealing room's mistake is understandable, it would not have ballooned into such a major issue had it not been for the highly computerized trading system. Certainly, the latest debacle by Mizuho should make traders more cautious about each order they put through, especially as they now have solid proof just how quickly a single inputting error could escalate into a problem for the entire stock trading system.

Nevertheless, one Japanese trader at a U.S. brokerage based in Tokyo pointed out that to blame computers for the most recent upheaval in the Tokyo Stock Exchange is misguided.

"Computerization is going to happen no matter what. It's more efficient ... and there's no business that doesn't depend on it," he argued, adding that the latest Tokyo fracas was highly unlikely to affect any plans by the New York Stock Exchange to take greater advantage of information technology with its acquisition of Archipelago Holdings this week. The $9 billion deal is expected to bolster the Big Board's high-tech trading capabilities and bring global bourses closer together.

"It just means there will need to be more mechanisms to make sure executions of orders are made correctly," the trader added.