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Tokyo Exchange President Resigns Over Trading Loss

By MARTIN FACKLER

TOKYO, Dec. 20 - The president of the Tokyo Stock Exchange, Takuo Tsurushima, resigned Tuesday to assume responsibility for a computer glitch that contributed to a $350 million trading loss and raised doubts about the exchange's ability to handle increasingly heavy volume.

Struggling to restore confidence in the exchange, Mr. Tsurushima, 67, told a hastily called news conference that he and two other executives - one the director in charge of the exchange's computer systems - will step down for failing to prevent the mistake.

The mishap at the Tokyo Stock Exchange, the world's second largest after New York, was the second major computer failure in two months: on Nov. 1, a malfunction shut down trade for most of the day.

The more recent episode occurred on Dec. 8, when the Japanese brokerage firm Mizuho Securities mistakenly sold shares of a newly listed job placement company, J-Com, at far below their market price, costing the brokerage 40.5 billion yen, or $349 million. Mizuho tried frantically for 10 minutes to cancel the order, but the exchange's computer blocked its efforts.

The breakdowns in the computer system, built by the Japanese electronics maker Fujitsu, come as stock trade is surging. With Japan's economy making its most convincing rebound in a decade, the market has rallied. Last week, the Financial Services Agency ordered the exchange to revamp its computer system, which analysts say is outdated.

"We need to build new systems to restore investors' faith," Mr. Tsurushima told reporters.

Analysts have also criticized the exchange for failing to resolve the Mizuho error right away by simply declaring the trade invalid, as other global exchanges would have done.

But even as the exchange struggles to restore its reputation, the ire of Japan's regulators and the news media has shifted elsewhere: to the six investment banks, almost all foreign, that pocketed the biggest profits from the error when they bought the mistakenly sold shares.

Japan's Financial Services Agency has summoned executives from the banks - which include UBS, Morgan Stanley and Lehman Brothers - to press them to "voluntarily" return profits from the trade, bankers said.

There has been a rising tone of indignation in local media and among politicians that the foreign banks were trying to gouge Mizuho, which is part of Japan's second-largest financial services company, the Mizuho Financial Group.

Amid the rising pressure, UBS and Lehman Brothers last week agreed to surrender their gains. The other banks said they are in talks with "interested parties" about a solution, though they complain that smaller, mostly Japanese brokerages and individuals who profited from the trade have not been asked to give up their earnings. The money would go into a fund operated by the industry to insure brokerage accounts. Kyodo News and Japan Today have both reported that all six banks have agreed to return their profits from the glitch.

The error came when a Mizuho employee mistyped a sale order, flooding the market with 610,000 shares of J-Com at 1 yen, less than a penny each; it had intended to sell only one share, at 610,000 yen, or $5,260. Mizuho traders tried to halt the order, but were ignored by the exchange's computer system.

The brokerage finally had to buy back most of the mistakenly sold shares - far exceeding the number of J-Com's outstanding shares - and reimburse investors who bought the rest.

The foreign investment banks face public derision for reaping a windfall from Mizuho's reimbursements. But experts are warning that painting foreigners as villains could backfire. Overseas investors have been the biggest buyers of Japanese stocks in recent months, taking the benchmark Nikkei 225 index to five-year highs. Those investors could cash out if they felt they were being made scapegoats by authorities, experts said.

They point, in particular, to large discrepancies in the way the authorities are handling Mizuho's trading error and how they handled a similar mistake four years ago by UBS. In that case, a stock trader in UBS's Tokyo office mistyped a sale order, costing the bank as much as $100 million. But neither the Tokyo Stock Exchange nor Japanese regulators did much about it, and UBS simply swallowed the loss.

"They are definitely not consistent in the handling of this case," said Kazuhito Ikeo, a professor of economics at Keio University in Tokyo, referring to the Mizuho mistake.

A spokesman for Japan's Financial Services Agency, which regulates banks, said it treats all companies equally, regardless of nationality.

Japanese newspapers have run front-page articles listing the estimated profits earned on the mix-up by the six banks. Topping the list was UBS, which newspapers estimated earned about 12 billion yen, or $103 million, a major share of the $140 million total that the six banks made on the mistake. Morgan Stanley came in second, with an estimated profit of 1.4 billion yen, or $12.1 million. Lehman Brothers reportedly earned 1 billion yen, or $8.6 million.

The other investment banks involved are Credit Suisse First Boston; Nikko Cordial, a brokerage firm based in Tokyo whose largest shareholder is Citigroup, and the Japanese firm Nomura Securities.