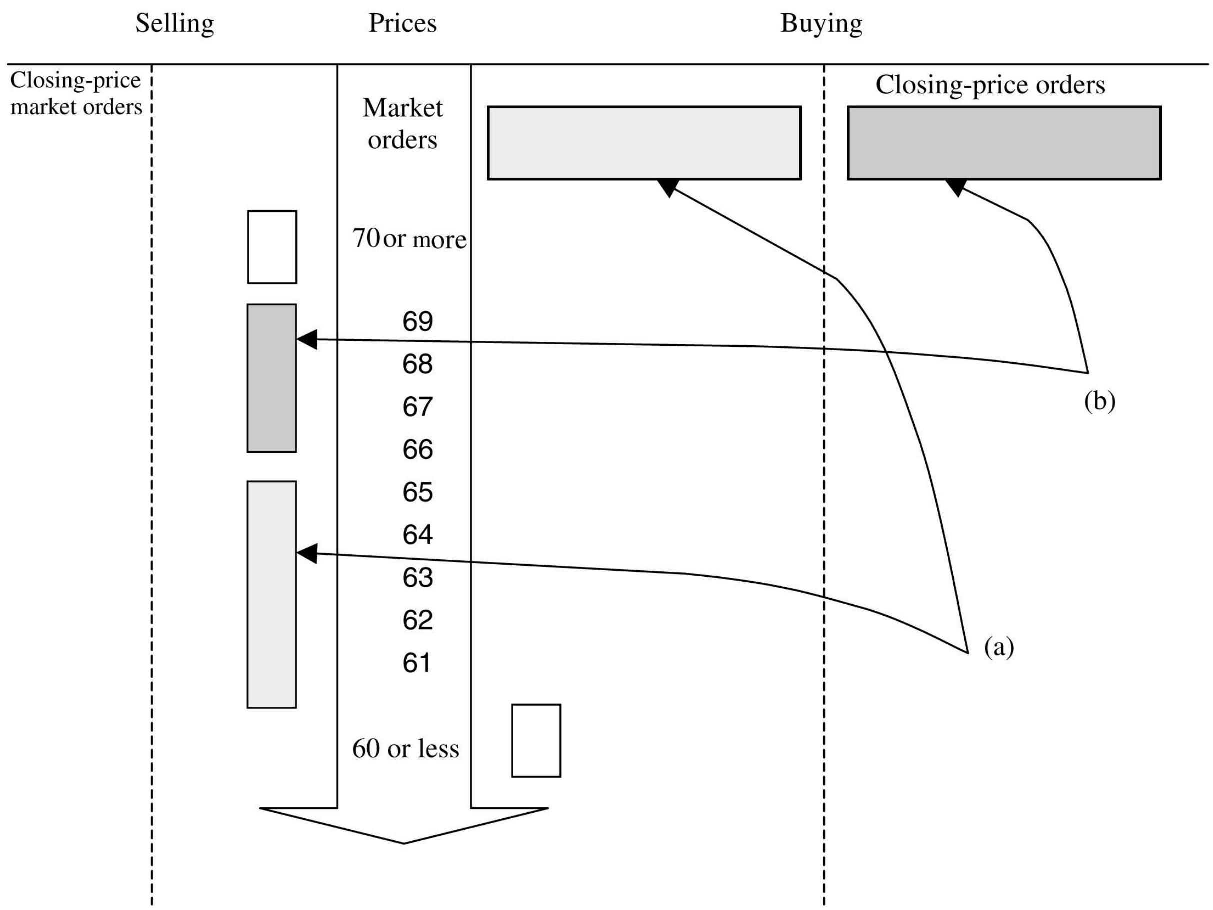
2. Formation of an artificial market (case study)

About issue (1)

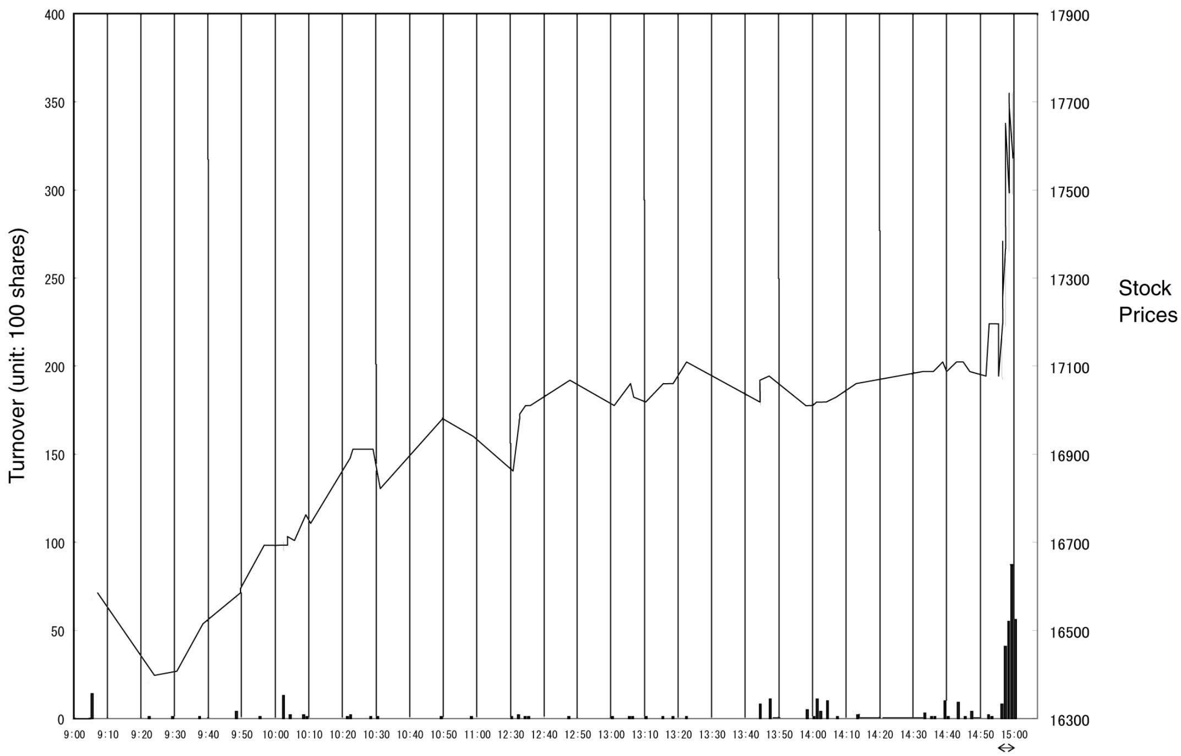


(Note) under closing-price order, orders are valid only at the time of the market's closing

[Transaction process]

1) After the stock in question was traded at \60 at 14:59, the Tokyo branch placed market buy orders and closing-price market buy orders for the shares during the next 60 seconds in quantities which were about 224% of the average trading volume.
2) Because of market orders, as shown in (a), the price of the stock rose to \65 toward the end of the day's trading.
3) At the end of the day's trading, closing-price market buy orders for the stock (as shown in (b) met sell orders of \69 or higher, which led to the stock ending the day at \69 (The price of the stock surged by 15% in the last minute). Trading by the Tokyo branch accounted for 100% of all transactions made for the stock from 14:59 until the end of the day. The following day, the stock opened lower at \62.

About issue (2)



[Transaction process]

1) Using an overseas affiliated company's account, a subordinate of the Managing Director at the Program Trading Desk placed market buy orders for the stock in question seven times at the TSE, every 30 seconds from around 14:56 to the close of the market, each order involving 500 shares. All of the buy orders ended in actual trading by meeting corresponding sell orders.

2) The Managing Director placed buy orders in eight batches from around 14:57 to 14:59, for 1,000 to 20,000 shares each time, at a price 1% above the stock's OSE quote in the immediate past. All of these buy orders ended in actual trading by meeting corresponding sell orders.

In addition, the Managing Director placed limit buy orders twice just before the market close by raising the premium margin compared to the OSE quotes to 2%, 3%, and so on. As a result of this, the stock's TSE price jumped from \17,190 at 14:56 to \17,570 at the close.

3) Although the Managing Director instructed another trader to buy all necessary shares of the stock, the Managing Director executed buy orders without having prior consultation with the trader over the buying transactions shown in 1) and 2).

This action amounted to buying that would most likely lead to excessive purchases, a practice known as over hedge.

Excessive purchases in fact happened for the stock, prompting the Tokyo branch to sell nearly half of the purchased shares the following day.