



Compliance

We do not believe that compliance stops with the letter of the law; we believe that it includes all actions for winning the confidence of our customers and society. We are committed to enhancing both group-wide initiatives and independent initiatives by our group companies.

Vision and medium-term goals for compliance

Given the public-interest aspect of the securities industry, all Daiwa Securities Group officers and employees must continually maintain a strong sense of ethics, and contribute to the sound

development of the securities market.

We will maintain a self-purifying system at the organizational level, where we are able to independently discover and correct risks and problems in our duties by having each employee be highly conscious of compliance.

	>> Issues and targets for fiscal 2006	>> Results and progress for fiscal 2006
Entire Group	<p>Arrange activities to raise awareness of the Corporate Ethics Hotline among group companies.</p> <p>Strengthen measures against anti-social influences.</p>	<ul style="list-style-type: none"> Conducted corporate ethics training at three major group companies. Revamped the in-house website for the Corporate Ethics Hotline, and enhanced access features from each group company. Shared information on trends in whistle blowing cases and the like among general-affairs management from each group company, and encourage alertness to enhance self-purification functions. Enhanced information collection functions, accumulated data, and enhanced advise relating to new business partners and investments of group companies.
Daiwa Securities	<p>Practice proposal sales in order to support the asset formation that clients truly want.</p> <p>Streamline the way consultations are conducted between customers and senior branch officers.</p> <p>Improve quality of performance in order to eliminate complaints and claims.</p> <p>Keep rigorous guard against anti-social influences and unfair trading practices.</p>	<ul style="list-style-type: none"> Informed all officers and employees of the need to ascertain customer attributes such as investment experience via compliance training and satellite broadcasts. The Compliance Department manages the status of consultations between specific types of customers (such as elderly customers) and superiors (branch managers and section managers) on a monthly basis. Continued to raise awareness of sales personnel and maintain a system of close contact between sales branches and the Compliance Division, and reduced the number of complaints to the Customer Support Center. Visited 73 sales offices jointly with Daiwa Securities Group Inc., and conducted training aimed at improving corporate ethics and the quality of operations, and thoroughly eliminate antisocial forces. Increased our case study profile of preventing antisocial forces from opening accounts.
Daiwa Securities SMBC	<p>Implement training that includes current issues, and enrich e-learning content.</p> <p>Take steps to prevent any leakage of personal data during the implementation of measures.</p> <p>Build an inspection system to watch for conflicts of interest.</p> <p>Create a framework to comply with the Comprehensive Supervisory Guidelines for Securities Companies established by the Financial Services Agency.</p> <p>Set up a trading management system according to the new rules of the Japan Securities Dealers Association.</p>	<ul style="list-style-type: none"> Built a system for timely incident-prevent training based on securities incidents and actual examples from other companies, and created new e-learning content regarding the latest case studies. Enhanced training curriculum for temporary employees. Checked for the existence of personal data throughout the company. Conducted leak-prevention training in each department, and made our system for selecting and managing outside contractors stricter. Built a system to check all transactions for conflicts of interest across the company. Identified items that do not meet the levels required by the supervisory guideline, and devised improvement measures. Build new system with transaction screening functions in compliance with rules.

Compliance regime

Daiwa Securities Group Inc. plays a central role in compliance policy for the entire Group: it formulates the principles and vision for compliance for the Group as a whole; it collects information about compliance at each group company; and it creates a workplace environment and foments ethical viewpoints to enable thorough compliance. Meanwhile, each group company must comply with a different set of rules and regulations, due to differences in the types and details of their businesses. For this reason, the Compliance Department of each group company plays a leading role in setting detailed compliance regulations and response.

The compliance regime of the Group as a whole is maintained and promoted by having both Daiwa Securities Group Inc. and each group company fulfill its respective role, and enhancing the collaboration between the initiatives of each.

Fiscal 2006 initiatives

Structure and performance of the Corporate Ethics Hotline

We introduced a Corporate Ethics Hotline in January 2003, through which employees can report problems in the workplace directly to either a corporate-ethics officer from Daiwa Securities Group Inc., or an outside attorney.

When there is a report, we investigate the situation together with the head of internal administration supervisors and the compliance officers at group companies, while working to ensure that the whistleblower is protected. The hotline received 74 reports in fiscal 2006, up 50% from the 49 reports in fiscal 2005. We judge that this increase is due to a broader user base, thanks to the training concerning the hotline, and our commitment to

respond to reports as quickly as possible, which increased recognition of and confidence in the hotline. Most of the reports deal with the workplace environment, and we believe that improvements to the workplace environment have been a benefit of the hotline. We remain committed to increasing confidence in the program and program recognition in order make the hotline fully effective at preventing issues, and enhance the program to promote its appropriate use.

Responses to reports made through the Corporate Ethics Hotline

Report	Response
Misuse of power and position, character disparagement, etc.	After an investigation of the situation, a warning was issued to the superiors and guidance was provided.
Sexual harassment	After an investigation of the situation, a warning was issued to the staff and guidance was provided.
Breaches of sales ethics and rules	After an investigation of the situation, special training and guidance was provided to the individuals concerned.
Impoliteness	A warning was issued at a general meeting concerning proper business practices and conduct.

Training with topical content, and enhancements to e-learning content

In addition to compliance training carried out on a regular basis, whenever there is a major incident we also conduct training in departments concerned, in order to prevent the occurrence of similar incidents in the future. We also produce topical content for our e-learning program that reflects changes in rules for screening sales promotion materials, the latest securities case studies, administrative sanctions, and the like, and utilize this content in our training.

► **WEB** Building a system to check for conflicts of interest

»» Targets and main action plans for fiscal 2007

The Group is committed to creating an environment at each group company where its employees understand corporate ethics and compliance well, by conducting training in corporate ethics, employee surveys about the Corporate Ethics Hotline, and other measures. We also continually monitor each group company to ensure they have no ties to antisocial forces, and strengthen our response through such measures as continual enhancements to our database relating to the elimination of antisocial forces.

Another key challenge for fiscal 2007 is the creation of systems required to comply with such newly enacted laws as the

Financial Instruments and Exchange Law and the revised Law on Sales of Financial Products, including a customer management system and investment recommendation system. We will also continue to check for the existence of personal information and our system for selecting and managing outside contractors, in order to ensure that personal information is thoroughly managed. We will also enhance and expand our regime for compliance with laws and regulations relating to foreign exchange, including enhancing our system for checking for accounts subject to economic sanctions and money laundering.