



# Compliance

We believe that compliance does not stop with the letter of law but 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.

## Initiatives and Targets

To meet the expectations of society relating to compliance, all Daiwa Securities Group executives and employees must maintain a strong sense of ethics and contribute to the

sound development of the securities market, in the light of the public-interest aspect of the securities industry.

Through strong compliance awareness on the part of all our executives and employees, we will maintain a system with a self-cleansing function enabling us to independently identify and correct business-related risks.

### Issues and Targets for Fiscal 2007

Entire Group

- Raise awareness of corporate ethics and compliance at Group companies.

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- Strengthen measures against criminal elements (continued).

Daiwa Securities

- Enhance systems compliant with such revised laws as the Financial Instruments and Exchange Law and the Financial Products Sales Law.

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- Revise internal rules, including simplification and streamlining.

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- Enhance customer and sales-force management systems.

Daiwa Securities SMBC

- Enhance systems compliant with such revised laws as the Financial Instruments and Exchange Law and the Financial Products Sales Law.

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- Manage information more stringently, and in particular establish systems to prevent leaks of personal information.

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- Enhance compliance regimes relating to laws and regulations concerning foreign exchange.

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- Support greater sophistication in risk-management systems.

### Performance/Progress Achieved in Fiscal 2007

- Corporate ethics training officers conducted corporate ethics training at four Group companies.

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- We continued to collect and accumulate data on criminal elements.

- The departments concerned worked together to set rules for practical application, communicated the information to sales branch employees and tested understanding of procedures through e-learning, etc.

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- To improve effectiveness, internal rules were streamlined, simplified and systematized.

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- The system of supervisors verifying customer suitability and sales staff's transaction records was reviewed and the control system was strengthened by establishing guidelines.

- Created a customer management system, an investment solicitation system, an examination system for sales literature, a contact record management system and others, to meet the requirements of the new laws.

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- Conducted a check of the existence of personal information managed by each department.
- Created stricter rules concerning transfers of personal information using external memory devices.

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- Implemented a system to speed up checking the accounts of parties whose assets have been frozen or that are subject to economic sanctions.

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- Created a framework to implement internal examination of new latent risks.

## Compliance Regime

Daiwa Securities Group Inc. plays a central role in setting compliance policy for the entire Group. Meanwhile, individual Group companies must comply with different sets of rules and regulations, due to differences in the types and details of their businesses. For this reason, each Group company's compliance department plays a leading role in setting out detailed compliance regulations and response.

In response to the Financial Instruments and Exchange Law and other laws that came into force in fiscal 2007, each Group company reviewed items affected by these laws and implemented systems to ensure more effective compliance. The compliance regime of the Group as a whole is maintained and promoted by having Daiwa Securities Group Inc. and Group companies fulfill their respective roles and by enhancing collaboration in their initiatives.

## Important Issues and Initiatives Related to Compliance

In fiscal 2007, the most important compliance-related issue for Daiwa Securities Group Inc. was to implement stronger measures against criminal elements. Beginning in fiscal 2006, we also broadened our activities to nurture awareness of compliance, by conducting corporate ethics training at four Group companies and other initiatives.

In addition to measures related to enactment of the Financial Instruments and Exchange Law and the Financial Products Sales Law in September 2007, Daiwa Securities Co. Ltd. also made stronger efforts to spread understanding of the intent of the rules by simplifying internal rules, providing training for executives and employees and other measures (see pp. 17–18).

Daiwa Securities SMBC Co. Ltd. established a framework to conform with the Financial Products Sales Law, taking steps to prevent leaks of personal information and enhancing its system to check for conflicts of interest and money laundering.

### Measures against Criminal Elements

Reflecting stronger social pressure to eliminate the influence of criminal elements, the government has drawn up guidelines for corporations to prevent damage by such elements. The Daiwa Securities Group, firmly believing that its role in the securities industry is to stoutly stand up to criminal elements and enhance trust by creating a sound securities market, has taken various measures toward this end.

In fiscal 2007, Daiwa Securities Group Inc. took the lead in accumulating more data, in order to shut out criminal elements.

Based on these initiatives, we also formulated the basic policy against criminal elements outlined below.

## Basic Policy against Criminal Elements

### Our stance

To ensure fairness and the sound development of the securities market and protect the safety of our customers and staff, the Daiwa Securities Group is creating a framework to eliminate the influence of organized crime groups, gang members, corporate extortionists and other criminal elements and taking systematic measures to cut all ties with such elements.

1. The Daiwa Securities Group will carry out no transactions of any type with criminal elements.
2. If it is determined that parties already having transactions with the Daiwa Securities Group are criminal elements, we will swiftly take appropriate measures to terminate dealings with them.
3. The Daiwa Securities Group will provide no funds to criminal elements.
4. The Daiwa Securities Group will accept no unfair demands from criminal elements. If it is determined that an unfair demand has been made by criminal elements, we will take legal action in the civil or criminal courts against the party making the demand.
5. The Daiwa Securities Group will establish close cooperative relationships with outside parties such as the police force, the National Center for the Elimination of Boryokudan [organized crime groups], legal experts and others.

**Web Activities** [● Calls Received at Our Customer Call Center](#)  
[● Structure and Performance of the Corporate Ethics Hotline](#)

## Fiscal 2008 Targets and Action Plans

To further strengthen our actions toward eliminating ties with criminal elements, we will stress, both inside and outside the company, the importance of adhering to our basic policy against criminal elements and ensure that this policy is known and put into practice at Group companies.

We will endeavor to instill a stronger sense of ethics and compliance awareness by enhancing compliance training and further improving the Corporate Ethics Hotline. We will establish a system conforming to the Guidelines for Supervision of the Financial Instruments Business and will continue to improve our risk management and information management systems to meet the provisions of the newly enacted Financial Instruments and Exchange Law.