

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.

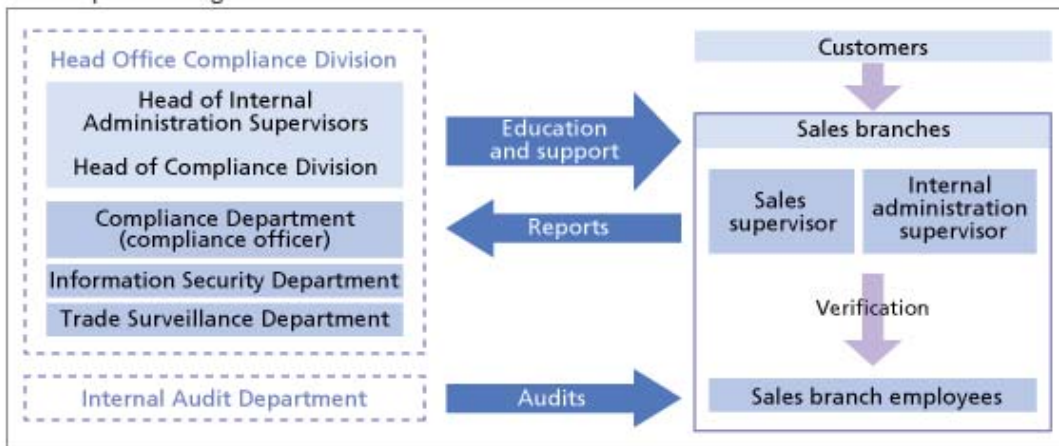
Compliance Regime

Daiwa Securities Group Inc. plays a central role in setting compliance policy for the entire Group. Meanwhile, policies initiated by 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 fiscal 2008, Daiwa Securities Group Inc. initiated training pertaining to insider trading regulations, formulated its basic policy against criminal elements—a policy that has been distributed to all Group companies—and conducted monitoring in relation to the implementation of such regulations. Moreover, Daiwa Securities Co. Ltd. improved coordination among the head office and branches by making organizational and personnel revisions to bolster its internal control system. Daiwa Securities SMBC Co. Ltd. upgraded systems that comply with the Financial Instruments and Exchange Law and implemented risk management-related measures. At the same time, Daiwa Securities SMBC Co. Ltd. conducted surveys of actual conditions with the aim of establishing solid information management systems regarding corporations.

Owing to the above measures, the Daiwa Securities Group is doing its utmost to maintain and promote the compliance regime of the Group as a whole.

■ Compliance regime



■ Optimal Management of IT Resources

Appropriate distribution of fixed costs is the primary advantage for managing IT resources in a rational and flexible manner. When closed conditions are removed allowing the flexible allocation of fixed costs, it is possible to apply the necessary cost structure to areas as needed and this ultimately enables the Daiwa Securities Group to achieve improvements in the quality of its operations and services. It is with this purpose that Group companies have begun to introduce thin client, a move that the head office has already completed. We are currently examining the viability of introducing this technology at all sales branches.

Achievements anticipated from the introduction of thin client include a more efficient IT system environment and a continual strengthening of businesses in cases where damage is sustained from unforeseen events such as major earthquakes. In addition to this, thin client is important in terms of dramatically improving information security.

Rather than undertaking conventional information management through individual computer terminals, this new system centralizes control under a central server that is shared among departments and Group companies. Given that almost all past leakages of corporate data have occurred at the individual level, whether intentional or not, the introduction of thin client is said to be an effective measure that can substantially alleviate the risk of information leaks.

■ Measures against Criminal Elements

Reflecting stronger social pressure to eliminate the influence of criminal elements, the Japanese government drew up guidelines for corporations to prevent damage by such elements in June 2007. The Daiwa Securities Group, firmly believing that its role in the securities industry is to strongly resist criminal elements and enhance trust by creating a sound securities market, has taken various measures toward this end.

In fiscal 2008, the basic policy against criminal elements, which was formulated in fiscal 2007, was thoroughly implemented, while Daiwa Securities Group Inc. took the lead in accumulating more data in order to shut out criminal elements. Moreover, impacted by revisions made to the Financial Services Agency (FSA)'s comprehensive supervisory guidelines for financial traders in March 2008, the Daiwa Group is implementing rules for verifying criminal elements and monitoring organizations with the aim of upgrading the ability of each Group company to identify such criminal elements.

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.

■ Structure and Performance of the Corporate Ethics Hotline

Since January 2003, Daiwa Securities Group Inc. has operated a Corporate Ethics Hotline through which employees can report problems in the workplace directly to a corporate ethics officer or an outside lawyer. When the hotline is contacted, the Daiwa Securities Group Inc. corporate ethics officer, in cooperation with the internal control officers at each Group company, carries out a fact-finding investigation, while taking steps to protect the employee. The Corporate Ethics Hotline was contacted 41 times in fiscal 2008, a decline of 32 times compared with the previous fiscal year.

The Group is conducting training to enable anyone to use the Corporate Ethics Hotline without hesitation and is making efforts to respond as quickly as possible when calls are received. This has led to a broadening of the user base, and we believe that the hotline is now better known within the Group and is considered reliable owing to the success of these efforts.

Regardless of measures used to solve problems from here onward, we are taking steps to expand training about the hotline so that it can work effectively as a deterrent to prevent problems before they occur.

■ Examples of Complaints and Responses

Nature of complaint	Response
Power harassment, negative comments regarding character	After fact-finding, call superior's attention to the problem and provide close guidance
Acts falling under sexual harassment	After fact-finding, call staff's attention to the problem and provide close guidance
Questionable sales tactics or infraction of rules	After fact-finding, provide close guidance, including special training, of the individual(s) concerned

■ Compliance Initiatives

The Daiwa Securities Group holds numerous compliance training sessions, while making full use of e-learning. Daiwa Securities Co. Ltd. conducts the All Branch Unified Compliance Assurance Test that targets all sales staff (approximately 7,500) once every six months, while Daiwa Securities SMBC Co. Ltd. undertakes the Compliance Assurance Test for all executives and employees (approximately 2,000) once every year.