

Management Report

Compliance

For the Daiwa Securities Group, compliance means more than complying with the law; it includes all the actions required to win the confidence of customers and the broader society. The Group is committed to enhancing both Group-wide initiatives and independent initiatives by Group companies.

Approach and Basic Stance

The Daiwa Securities Group offers a wide range of financial products and services, all of which depend on the existence of sound financial and capital markets. But much more than Daiwa's success is at stake—without stable, fair, and transparent markets, economic prosperity and social progress are not possible. The Daiwa Securities Group takes its responsibility to contribute to healthy markets seriously. It works every day to accomplish this by fulfilling an intermediary role between issuers, who need funds, and investors, who have funds available, fostering liquidity that benefits not only those directly involved, but also the broader society. Most importantly, Daiwa recognizes that none of these vital functions are possible without a highly effective compliance framework and rigorous internal controls.

With the conviction that sales and compliance must be fully integrated, the Group is also pursuing initiatives to strengthen linkages between sales branches and headquarters departments.

Compliance Framework

Daiwa Securities Group Inc. plays a central role in setting compliance policy for the entire Group. This is complemented by policies formulated by each Group company to comply with rules and regulations that apply to their specific line of business. For this reason, each Group company's compliance department plays a leading role in setting out detailed compliance regulations and measures.

In fiscal 2009, the Sales Inspection Department was established within the Compliance Division, taking over responsibility for inspecting branches, which had previously rested with the Internal Audit Department. By strengthening connections with the Compliance Department, the Group intends to improve the efficiency and enhance the level of branch inspections.

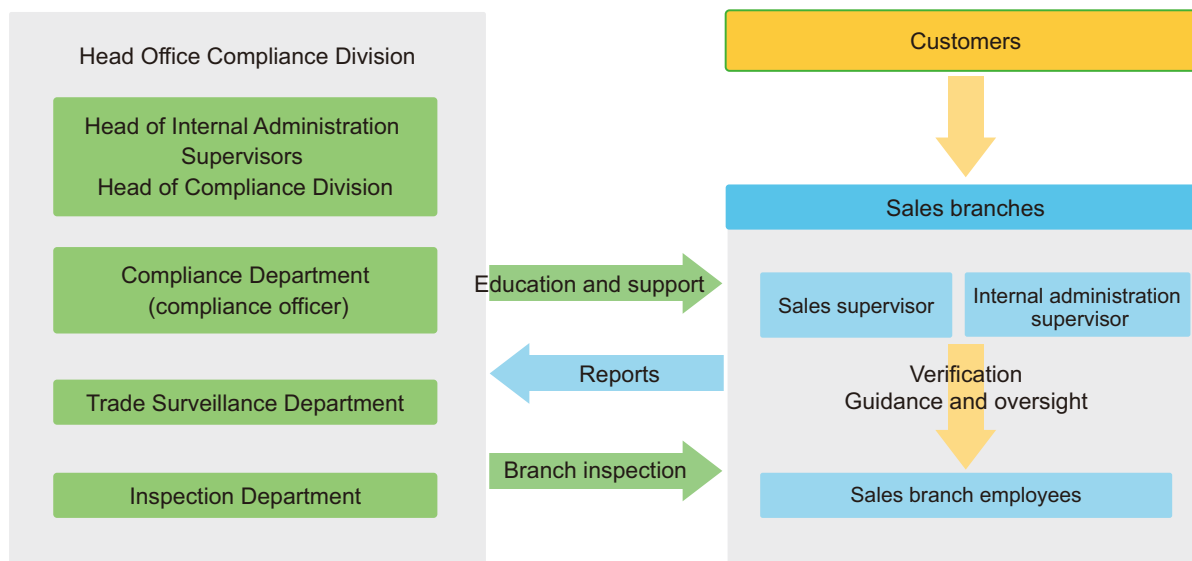
The Group has also reinforced its system for improving and upgrading the quality of its sales

with the full-scale launch of its system for monitoring unfair trading and the establishment of a "supervisor confirmation system" intended to improve and enhance the quality of its sales by guiding and educating sales employees.

Daiwa Securities Capital Markets has developed a system for checking its cross-border trades with overseas branches to ensure no involvement with criminal elements. When a Daiwa Securities customer opens an account with Daiwa Securities Capital Markets, this system checks the transaction based on Daiwa Securities Capital Markets' internal rules, in addition to Daiwa Securities' check.

Those responsible for compliance in each of the Group companies exchange information in the corporate ethics liaison committee, and the Group's overall compliance framework is continuously maintained and promoted.

Daiwa Securities' Compliance Framework



Systematic Measures to Avoid Involvement with Criminal Elements

The Daiwa Securities Group avoids any involvement whatsoever with organized criminal elements. This is a key part of its commitment to earning trust and ensuring sound financial markets. The Group is taking a range of measures to reinforce its systematic measures for preventing any engagement with parties associated with organized crime in or outside of Japan.

In 2008, the Group established a new basic policy governing its approach to avoiding involvement with organized criminal elements and began to execute it. The Group also follows the Guidelines for Corporations to Prevent Damage by Criminal Elements issued by the Japanese government in

June 2007.

In addition, Daiwa Securities Group Inc. compiled information from Group companies, reviewing cases where contact may have been received from criminal elements, and holding interviews to assess the response. It also exchanged information with public institutions and worked to build a comprehensive database.

Going forward, in addition to these measures to avoid involvement with criminal elements, the Group will strengthen its measures to avoid engagement with parties involved in unfair trading in the financial markets as well as those who may tolerate criminal elements.

■ Basic Policy on Avoiding Any Involvement with Criminal Elements

Basic Position

To ensure fairness and the sound development of the securities market and protect 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 avoid all ties with such elements.

1. The Daiwa Securities Group will not carry out any transactions whatsoever 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 establishes 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.

Compliance Training

Daiwa Securities Group companies provide regular training and testing to improve compliance awareness and ensure that all employees embrace Daiwa's commitment to corporate ethics. These efforts are the foundation of employees' own efforts to ensure total compliance.

The Daiwa Securities Group holds numerous compliance training sessions, making full use of e-learning technologies.

Daiwa Securities Capital Markets gives the

Compliance Assurance Test to all executives and employees (approximately 2,000) once a year, while Daiwa Securities gives the All Branch Unified Compliance Assurance Test to all sales staff (approximately 7,500) once every six months. In addition, new hires and newly appointed managers receive compliance education and training, and extra training is given as needed in light of the results of tests conducted by regulatory authorities and major legal violations by other companies.

Corporate Ethics Hotline

Since January 2003, Daiwa Securities Group Inc. has been operating 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 caller. The Corporate Ethics Hotline was contacted 21 times in fiscal 2009, 20 times fewer than in the previous fiscal year.

The Group is conducting training to ensure anyone

can 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 potential user base, and the hotline is now very well 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, the Group is taking steps to expand training about the hotline so that it can work more effectively than ever before as a deterrent to prevent problems before they occur.

| Nature of complaint | Response |
|---|--|
| Power harassment, negative comments regarding character | Conduct fact-finding, then bring the misconduct to the attention of the senior manager, and implement training for the superior involved |
| Sexual harassment and other such behaviors | Conduct fact-finding, then bring the misconduct to the attention of the staff, and implement training for the staff involved |
| Questionable sales tactics or infraction of rules | Conduct fact-finding, then implement special training for the staff involved |