

DAIWA

Daiwa Capital Markets America Inc.

*(A Wholly Owned Subsidiary of
Daiwa Capital Markets America Holdings Inc.)*

S t a t e m e n t
of
F i n a n c i a l
C o n d i t i o n

A S O F M A R C H 3 1

2011

(With Report of Independent Registered Public
Accounting Firm Thereon)

*Member of
all Major U.S. Securities and
Commodities Exchanges*



KPMG LLP
345 Park Avenue
New York, NY 10154

**Report of Independent Registered
Public Accounting Firm**

**The Board of Directors and Stockholder
Daiwa Capital Markets America Inc.:**

We have audited the accompanying statement of financial condition of Daiwa Capital Markets America Inc. (a wholly owned subsidiary of Daiwa Capital Markets America Holdings Inc.) (the Company) as of March 31, 2011. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above present fairly, in all material respects, the financial position of Daiwa Capital Markets America Inc. as of March 31, 2011, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 26, 2011

DAIWA CAPITAL MARKETS AMERICA INC.

(A Wholly Owned Subsidiary of
Daiwa Capital Markets America Holdings Inc.)

STATEMENT OF FINANCIAL CONDITION

MARCH 31, 2011

(In thousands, except share data)

ASSETS

Cash and cash equivalents	\$ 124,527
Cash segregated for regulatory purposes	209,824
Securities purchased under agreements to resell	22,205,575
Financial instruments owned, at fair value	9,563,542
Securities borrowed	5,283,630
Securities received as collateral	447,693
Receivable from brokers, dealers, and clearing organizations	438,192
Receivable from affiliates	22,121
Receivable from customers	15,361
Office furniture, equipment, and leasehold improvements, at cost, less accumulated depreciation and amortization of \$30,624	12,044
Exchange memberships, at cost (fair value, \$5,981)	1,228
Goodwill	27,331
Other assets	227,432
Total assets	\$38,578,500

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES:

Securities sold under agreements to repurchase	\$27,802,002
Financial instruments sold, but not yet purchased, at fair value	5,579,807
Securities loaned	3,179,322
Obligation to return securities received as collateral	447,693
Payable to brokers, dealers, and clearing organizations	366,196
Loans payable	187,762
Payable to customers	64,237
Payable to Parent and affiliates	62,881
Accounts payable and accrued liabilities	258,216
	<u>37,948,116</u>

COMMITMENTS, CONTINGENCIES, AND GUARANTEES:

Subordinated borrowings	200,000
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STOCKHOLDER'S EQUITY:

Common stock, no par value, stated value \$25,000 per share. Authorized 6,640 shares; issued and outstanding 4,000 shares	100,000
Additional paid-in capital	229,402
Retained earnings	100,982
Total stockholder's equity	430,384
Total liabilities and stockholder's equity	\$38,578,500

The accompanying notes are an integral part of this statement of financial condition.

DAIWA CAPITAL MARKETS AMERICA INC.

(A Wholly Owned Subsidiary of
Daiwa Capital Markets America Holdings Inc.)

NOTES TO STATEMENT OF FINANCIAL CONDITION MARCH 31, 2011

(1) ORGANIZATION

Daiwa Capital Markets America Inc. (the Company) is a wholly owned subsidiary of Daiwa Capital Markets America Holdings Inc. (the Parent). The Parent is a wholly owned subsidiary of Daiwa Securities Capital Markets Co. Ltd. (DSCM), which operates as a registered Japanese securities firm and clears transactions for the Company in Japan.

The Company is registered as a broker-dealer with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA) and various exchanges. The Company is registered as a futures commission merchant (FCM) with the Commodity Futures Trading Commission (CFTC), is a member of the National Futures Association (NFA), and is a clearing member of principal commodity exchanges in the United States. The Company's activities include brokerage, trading of various securities primarily in U.S. and Japanese markets, and investment banking. The Company is also a primary dealer in U.S. government and agency securities.

On November 19, 2010, the Company acquired the US based global convertible bond business of KBC Group NV as part of DSCM's purchase of the KBC Group NV's global convertible bond and Asian equity derivatives business lines. The Company paid total consideration of approximately \$140 million, consisting of approximately \$27 million for goodwill, \$3 million for software, and acquired net trading positions of approximately \$110 million. The purchase was funded by a capital contribution from the Parent. Approximately 30 people joined the Company as part of the acquisition. This new business will provide primary and secondary market services for institutional investors and issuers in convertible bonds.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Company's statement of financial condition is prepared in accordance with U.S. generally accepted accounting principles and prevailing industry practice, both of which require management to make estimates and assumptions that may affect the amounts reported in the statement of financial condition and accompanying notes. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and disclosures about contingent assets and liabilities. Such estimates, including the fair value of financial instruments, valuation of deferred tax assets, and litigation reserves, are, by their nature, based on judgment and available information and, therefore, may vary from actual results. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Management does not believe that actual results will differ materially from these estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents represents cash held in banks.

(c) Collateralized Financing Transactions

Securities purchased under agreements to resell (reverse repurchase agreements or resale agreements) and securities sold under agreements to repurchase (repurchase agreements) are collateralized financing transactions. The agreements provide that the transferor will receive substantially the same securities in return at the maturity of the agreement and that the transferor will obtain from the transferee sufficient cash or collateral to purchase such securities during the term of the agreement. These transactions are carried at their contract price plus accrued interest. Reverse repurchase agreements and repurchase agreements with the same counterparty and same maturity are presented net in the statement of financial condition when the terms of the agreements permit netting under U.S. generally accepted accounting principles.

Securities borrowed and loaned result from transactions with other broker-dealers or financial institutions and are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash with the lender. Securities loaned transactions require the borrower to deposit cash with the Company.

(d) Financial Instruments

Financial instruments owned and financial instruments sold, but not yet purchased are recorded at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures*. Principal transactions in regular-way trades are recorded on a trade-date basis.

Amounts receivable and payable for regular-way securities transactions that have not yet reached their contractual settlement date are recorded net on the statement of financial condition.

(e) Office Furniture, Equipment, and Leasehold Improvements

Office furniture and equipment are depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are amortized over the lesser of their useful lives or the term of the related lease.

(f) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as the estimated future tax consequences attributable to net operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company's results of operations are included in the consolidated federal and combined state and local income tax returns filed by the Parent. In accordance with the tax sharing agreement, the Parent allocates to the Company its proportionate share of the consolidated federal and combined state and local tax liabilities on a separate-company basis.

With the adoption of ASC 740-10, *Accounting for Uncertainty in Income Taxes*, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

(g) Goodwill

Goodwill is the excess of purchase price over the fair value of net identifiable assets acquired. Goodwill is not amortized, but is reviewed for impairment annually, or whenever events or circumstances give rise to losses that would make it more likely than not that a reduction of fair value of the reporting unit below its carrying amount has occurred. Determining whether an impairment has occurred requires valuation of the respective reporting unit, which is estimated using a discounted cash flow method. Goodwill was recorded on the purchase of the convertible bond business of KBC on November 19, 2010. For the year ended March 31, 2011, there were no impairment charges recorded as no indicators of impairment occurred.

(h) Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standard Update (ASU) No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) — *Improving Disclosures about Fair Value Measurements*." ASU No. 2010-06 provides amended disclosure requirements related to fair value measurements. Certain of these disclosure requirements were effective for the Company beginning on January 1, 2010, while others are effective for financial statements issued for reporting periods beginning after December 15, 2010. Since these amended principles require only additional disclosures concerning fair value measurements, the adoption did not and will not affect the Company's basic financial statements.

(3) CASH SEGREGATED FOR REGULATORY PURPOSES

Cash of \$6,824,000 is segregated in accordance with the Commodity Exchange Act. This balance represents funds deposited by customers and funds accruing to customers as a result of trades or contracts.

Cash of \$203,000,000 is segregated in special reserve bank accounts for the exclusive benefit of customers under Rule 15c3-3 of the Securities Exchange Act.

(4) SECURITIES PURCHASED AND SOLD UNDER AGREEMENTS TO RESELL AND REPURCHASE

Securities purchased and sold under agreements to resell and repurchase are accounted for as collateralized financing transactions and are recorded at contract price plus accrued interest. It is the policy of the Company to obtain possession of collateral with market

values equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral when appropriate. As of March 31, 2011, the Company has accepted securities with market values of approximately \$32,246,313,000 under resale agreements and pledged securities with market values of approximately \$37,748,289,000 under repurchase agreements, prior to the application of ASC 210-20-45-11, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*. The securities pledged are made up of securities received from resale agreements, borrow transactions, and from proprietary securities. Reverse repurchase agreements and repurchase agreements are reported net by counterparty when permitted under ASC 210-20-45-11. At March 31, 2011, the Company's assets and liabilities were netted by approximately \$9,834,839,000 as a result of the application of ASC 210-20-45-11.

As of March 31, 2011, the Company has the right to sell or repledge substantially all of the securities it has received under its resale agreements. Of this amount, substantially all were repledged as of March 31, 2011. These repledged securities have been used in the normal course of business.

(5) SECURITIES BORROWED AND SECURITIES LOANED

Securities borrowed and securities loaned transactions are reported as collateralized financing transactions and are recorded at the amount of cash or securities collateral advanced or received by the Company. Securities borrowed transactions require the Company to deposit cash or securities with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or securities in an amount generally in excess of the market value of securities loaned. In transactions where the Company acts as a lender in a securities lending agreement and receives securities that can be pledged or sold as collateral, it recognizes an asset on the statement of financial condition, representing the securities received, and a liability for the same amount, representing the obligation to return these securities. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. As of March 31, 2011, the Company has received securities with a market value of approximately \$5,672,042,000 related to its securities borrowed transactions and pledged approximately \$3,621,925,000 related to its securities loaned transactions.

As of March 31, 2011, the Company has the right to sell or repledge substantially all of the securities it has received under its securities borrowed transactions. The Company repledged substantially all of these securities as of March 31, 2011. These repledged securities have been used in the normal course of business.

(6) RECEIVABLE FROM AND PAYABLE TO BROKERS, DEALERS, AND CLEARING ORGANIZATIONS

At March 31, 2011, amounts receivable from and payable to brokers, dealers, and clearing organizations consisted of the following (in thousands):

Receivable from brokers, dealers, and clearing organizations:

Securities failed to deliver	\$126,128
Clearing broker	288,636
Clearing organizations	12,427
Other	11,001
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	\$438,192
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Payable to brokers, dealers, and clearing organizations:

Net payable for trades pending settlement	\$280,682
Securities failed to receive	67,402
Clearing organizations	13,902
Other	4,210
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	\$366,196
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(7) FINANCIAL INSTRUMENTS OWNED AND FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED, AT FAIR VALUE

At March 31, 2011, financial instruments owned and financial instruments sold, but not yet purchased, at fair value consisted of the following (in thousands):

Financial instruments owned, at fair value:

U.S. government and agency obligations	\$8,756,922
U.S. government agency mortgage-backed obligations	431,465
Convertible bonds	338,148
Equities	35,113
Forward contracts	1,090
Other	804
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	\$9,563,542
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Financial instruments sold, but not yet purchased, at fair value:

U.S. government and agency obligations	\$5,208,960
Equities	293,375
Convertible bonds	76,893
Forward contracts	569
Other	10
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	\$5,579,807
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The Company's counterparties to its collateralized financing transactions have the right by contract or custom to sell or repledge the Company's pledged proprietary securities. As of March 31, 2011, the Company has pledged approximately \$8,687,845,000 of proprietary financial instruments owned related to the Company's collateralized financing transactions.

FAIR VALUE MEASUREMENTS

ASC 820 defines fair value, establishes a framework for measuring fair value using a three level hierarchy for fair value measurements based upon the market observability and reliability of inputs used to value assets and liabilities, and requires enhanced disclosures about fair value measurements. ASC 820 does not dictate when fair values should be the basis to account for a financial asset or liability, nor does it prescribe which valuation technique should be used. Rather, ASC 820 requires an entity to choose appropriate valuation techniques based upon market conditions, and the availability, reliability, and observability of valuation inputs.

(a) Fair Value Hierarchy

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure an asset or a liability fall to different levels within the hierarchy, the classification of the entire asset or liability will be based on the lowest level input that is significant to the overall fair value measurement of the asset or liability. The Company categorizes assets and liabilities based on the inputs to the valuation techniques used to measure fair value as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date. Level 1 measurements include most U.S. government and government agency securities, equity securities, and exchange-traded derivatives.

Level 2: Quoted prices in markets that are not active, quoted prices for similar assets or liabilities, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability. Level 2 measurements may include U.S. government agency securities, U.S. government agency mortgage-backed obligations, corporate bonds, and convertible bonds.

Level 3: Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable. Level 3 inputs are estimates or assumptions that management expects market participants would use in determining the fair value of the asset or liability. In determining the appropriate measurement levels, the Company would perform analyses on the assets and liabilities subject to ASC 820 at the end of each reporting period. Changes in the observability of significant valuation inputs during the reporting period may result in a reclassification of certain assets and liabilities within the fair value hierarchy. At March 31, 2011, the Company did not hold any Level 3 assets or liabilities.

The following table summarizes the Company's fair value hierarchy for those assets and liabilities measured at fair value at March 31, 2011 (in thousands):

	Fair Value Measurement			Total
	Level 1	Level 2	Level 3	
Assets:				
U.S. government and agency obligations	\$8,756,922	\$ —	\$ —	\$8,756,922
U.S. government agency mortgage-backed obligations	—	431,465	—	431,465
Convertible bonds	—	338,148	—	338,148
Equities	35,113	—	—	35,113
Forward contracts	—	1,090	—	1,090
Other	804	—	—	804
Financial instruments owned, at fair value	<u>\$8,792,839</u>	<u>\$ 770,703</u>	<u>\$ —</u>	<u>\$9,563,542</u>
Liabilities:				
U.S. government and agency obligations	\$5,208,960	\$ —	\$ —	\$5,208,960
Equities	293,375	—	—	293,375
Convertible bonds	—	76,893	—	76,893
Forward contracts	—	569	—	569
Other	10	—	—	10
Financial instruments sold, but not yet purchased, at fair value	<u>\$5,502,345</u>	<u>\$ 77,462</u>	<u>\$ —</u>	<u>\$5,579,807</u>

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the period ended March 31, 2011.

(b) Valuation Techniques for Major Assets and Liabilities

Debt and Equity Securities

Where available, debt and equity securities are valued based on quoted market prices. If a quoted market price for the identical security is not available, the security is valued based on quotes from similar securities where possible. The fair value measurements for Level 2 U.S. government agency mortgage-backed obligations and convertible bonds are validated by inputs obtained from independent pricing sources taking into account differences in the characteristics and the performance of the underlying collateral. The Company will determine whether adjustments to the observable inputs are necessary as a result of investigations and inquiries about the reasonableness of the inputs used and the methodologies employed by the independent pricing sources.

Derivatives

Exchange-traded derivatives are valued using quoted prices. OTC derivatives, such as forward contracts, are valued using a models-based approach. Valuation models calculate the present value of expected future cash flows. All inputs into the calculation of the fair value of forward contracts are transparent and observable in the market.

Securities purchased under agreements to resell, securities sold under agreements to repurchase, securities borrowed, securities loaned, loans payable, and subordinated borrowings are stated at their contract values. The contract value for these financial instruments is considered to approximate fair value, as they are short-term in nature, bear interest at current market rates, or are subject to repricing.

(8) RECEIVABLE FROM AND PAYABLE TO CUSTOMERS

Receivable from and payable to customers primarily relate to securities and futures transactions. These receivables are typically collateralized by securities, the value of which is not reflected in the accompanying statement of financial condition.

(9) LOANS PAYABLE

Loans payable primarily consists of an open loan of \$175,000,000 at a rate of .51% with the Parent. In addition, the Company has a \$12,040,000 loan at a rate of 0.34% payable to DSCM. The loan is denominated in yen, has a face value of ¥1 billion, and has a maturity date of May 16, 2011. These loans are primarily used to finance the Company's securities operations. Upon maturity, a new ¥1 billion loan at a rate of .32% was entered into with DSCM.

(10) SUBORDINATED BORROWINGS

As of March 31, 2011, the Company had two subordinated notes payable to the Parent of \$50,000,000 and \$150,000,000, which are due on April 3, 2012 and May 31, 2012, respectively. Both of the notes are treated as equity, as defined under the Uniform Net Capital Rule 15c3-1 of the Securities Exchange Act (Rule 15c3-1). Repayment of the notes is contingent upon the Company being compliant with certain net capital requirements of both the Securities and Commodity Exchange Acts.

Each of the notes bears interest at rates based on the London InterBank Offered Rate (LIBOR) plus 25 basis points. These liabilities are subordinated to the claims of general creditors of the Company and have been approved as regulatory capital and, accordingly, are included as net capital by the Company in computing net capital under Rule 15c3-1.

(11) COMMITMENTS, CONTINGENCIES, AND GUARANTEES

The Company leases and subleases office space under noncancelable lease agreements expiring at various dates through the year ending March 31, 2027. Minimum rentals under these lease agreements are approximately as follows (in thousands):

	<u>Occupancy leases</u>	<u>Subleases</u>
Year ending March 31:		
2012	\$ 5,771	392
2013	7,046	523
2014	6,835	523
2015	6,736	523
2016	6,736	523
Thereafter	79,150	6,140

The Company is involved in litigation arising in the normal course of business. It is management's opinion that these actions will not have a material adverse effect on the financial condition of the Company.

Until 1999, the Company acted as clearing broker for market participants trading in emerging markets debt. Over a period of years, some market participants notified the Company of potential claims related to this business, including one with which the Company agreed to toll the statute of limitations for a limited time, and the Company notified other market participants of the Company's potential claims against them. None of these notifications has resulted in a legal proceeding where claims have been made against the Company.

During this fiscal year, the Company was approached by an entity claiming to have been a counterparty to transactions entered into by the Company through this emerging markets clearing business and stating that as a result the Company is indebted to it for approximately \$33 million. Discussions with this entity are ongoing. The amount of any resulting settlement or loss may not be estimated with certainty. It is the opinion of the Company's management that this matter will not have a material adverse effect on the financial condition of the Company after taking into account relevant reserves and other resources available to the Company.

In the normal course of business, the Company provides guarantees to securities clearinghouses and exchanges. These guarantees are generally required under the standard membership agreements, such that members are required to guarantee the performance of other members. To mitigate these performance risks, the exchanges and clearinghouses often require members to deposit collateral. The Company's obligation under such guarantees could exceed the collateral amounts posted; however, it is management's opinion that the potential for the Company to be required to make payments under such guarantees is remote.

The Company had commitments to enter into forward secured financing transactions, including certain repurchase and reverse repurchase agreements, of \$1,069,139,000 and \$2,031,949,000, respectively, at March 31, 2011.

(12) INCOME TAXES

The significant components of the Company's net deferred tax assets at March 31, 2011 are as follows (in thousands):

Deferred tax assets:

Depreciation	\$ 2,095
Deferred rent	2,502
Net operating loss carry forward	2,368
Other	611
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Total gross deferred tax assets	7,576
Less valuation allowance	—
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Net deferred tax assets	<u>\$ 7,576</u>

Major taxing jurisdictions for the Company and tax years for each that remain subject to examination are as follows:

U.S. Federal	March 31, 2008 and later
New York State	March 31, 2008 and later
New York City	March 31, 2008 and later

The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. The Company believes that it is more likely than not that all of the deferred tax assets will be realized against future taxable income and, as such, has not recorded a valuation allowance against these assets at March 31, 2011.

(13) RELATED PARTY TRANSACTIONS

In the normal course of business, the Company's operations may include significant transactions conducted with affiliate entities. Such transactions are governed by contractual agreements between the Company and its affiliates. The following table sets forth the Company's related party assets and liabilities as of March 31, 2011 (in thousands):

Assets:

Securities purchased under agreements to resell	\$ 5,095,168
Securities borrowed	572,519
Financial instruments owned, at fair value	668
Receivable from brokers, dealers, and clearing organizations	13,108
Receivable from affiliates	22,121
Other assets	157

Liabilities:

Securities sold under agreements to repurchase	\$ 313,336
Securities loaned	590,911
Payable to brokers, dealers, and clearing organizations	15,057
Loans payable	187,040
Payable to customers	704
Payable to Parent and affiliates	62,881
Accounts payable and accrued liabilities	447

Subordinated borrowings	\$ 200,000
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(14) RETIREMENT PLAN

All local employees are eligible for participation in the Company's retirement plan (the Plan) after six months of service. The Plan, established on June 1, 1985 and amended on October 1, 1989, is a profit-sharing plan qualifying under Section 401(a) of the Internal Revenue Code of 1986 (the Code), as amended, and includes a cash or deferred arrangement qualifying under Sections 401(k) and (m) of the Code. The Company contributes 3% of the employees' earnings as defined by the Plan. Additional amounts of earnings can be contributed by management at its discretion.

(15) OFF-BALANCE-SHEET MARKET RISK AND CONCENTRATIONS OF CREDIT RISK

(a) Market Risk

In the normal course of its operations, the Company enters into various contractual commitments involving forward settlement. These include financial futures contracts, options contracts, and commitments to buy and sell securities and foreign currencies. Commitments involving future settlement give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular financial instrument.

The Company monitors and manages its market risk exposure by setting market risk limits and by reviewing the effectiveness of economic hedging strategies. The Company's policy is to take possession of securities purchased under agreements to resell and securities borrowed and maintain these securities with its custodian. The Company monitors the market value of the assets acquired to ensure their adequacy as compared to the amount at which the securities will be subsequently resold, as specified in the respective

agreements. The agreements provide that, where appropriate, the Company may require the delivery of additional cash or securities.

The Company records all contractual commitments involving future settlement at fair value.

Futures contracts are executed on an exchange and cash settlement is made on a daily basis for market movements. Margin on futures contracts is included in receivable/payable to brokers, dealers, and clearing organizations. Options are recorded at fair value in the statement of financial condition. Fair value of the options is the unrealized gain or loss on the contract and is recorded in financial instruments owned and financial instruments sold, but not yet purchased.

(b) Concentrations of Credit Risk

Credit risk is measured by the loss that the Company would record if its counterparties failed to perform pursuant to the terms of contractual commitments. Management of credit risk involves a number of considerations, such as the financial profile of the counterparty, specific terms and duration of the contractual agreement, market fluctuations, and the value and monitoring of collateral held, if any. The Company has established various procedures to manage credit exposure, including initial credit approval, credit limits, collateral requirements, rights of offset, and continuous oversight and monitoring.

The Company regularly transacts business with, and owns securities issued by, a broad range of corporations, governments and agencies, and other financial institutions. The Company also enters into collateralized financing agreements in which it extends short-term credit, primarily to major financial institutions, including major U.S. and non-U.S. commercial banks, investment banks, and affiliates. The Company generally controls access to the collateral pledged by the counterparties, which consists largely of securities issued by the U.S. government or its agencies. The value and adequacy of the collateral are continually monitored. Consequently, management believes the risk of credit loss from counterparties' failure to perform in connection with collateralized lending activities is minimal.

Remaining concentrations arise principally from financial or contractual commitments involving future settlements, fixed income securities, and equity securities. Concentrations are diverse with respect to geographic locations and industries of counterparties. North America and the Pacific Rim represent the largest concentrations geographically. Among types of industries, U.S. based and international financial institutions represent the largest group of counterparties.

Substantially all of the Company's cash and securities positions are either held as collateral by its clearing brokers and banks against various margin obligations of the Company or deposited with such clearing brokers and banks for safekeeping purposes.

(16) NET CAPITAL REQUIREMENTS

The Company is a registered U.S. broker-dealer and FCM subject to Rule 15c3-1 and Regulation 1.17 of the Commodity Exchange Act, which specify uniform minimum net capital requirements, as defined, for their registrants. The Company has elected to use the alternative method of computing net capital, as permitted by Rule 15c3-1, which requires that the Company maintain minimum net capital, as defined, of the excess margin collected on reverse repurchase transactions, plus the greatest of:

- a. \$1,000,000;
- b. 2% of aggregate debit balances arising from customer transactions, as defined; or
- c. 8% of customer risk maintenance margin requirements and 8% of noncustomer risk maintenance margin requirements pursuant to the Commodity Exchange Act and the regulations thereunder.

The Company is also subject to the minimum net capital requirements of all self-regulatory organizations of which it is a member. The Company is a clearing member of the Chicago Mercantile Exchange (CME), which requires all clearing members to maintain minimum net capital of \$5,000,000. Additionally, equity capital may not be withdrawn or cash dividends paid if the resulting net capital would be less than the greatest of 120% of the greater of (a) and (c) above, or 5% of aggregate debit items. At March 31, 2011, the Company had net capital of \$305,231,000 which was \$303,776,000 in excess of the minimum net capital required under Rule 15c3-1.

A copy of the firm's statement of financial condition pursuant to Rule 17a-5 of the Securities Exchange Act is available for examination at our principal office at 32 Old Slip, New York, New York, and at the SEC offices in Washington, D.C. and New York City.

DAIWA CAPITAL MARKETS AMERICA INC.
HEAD OFFICE

32 Old Slip,
New York, New York 10005
Tel: (212) 612-7000