14. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income. The effective statutory tax rate in Japan was approximately 40.7% for the years ended March 31, 2012 and 2011. Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

Reconciliation of the difference between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2012 and 2011 are not presented, since net loss is reported in the consolidated statements of income.

Details of deferred tax assets and liabilities at March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Net operating losses carry-forward	¥ 179,644	¥ 151,793	$ 2,190,780
Revaluation of assets on consolidation	14,094	–	171,878
Write-down of investment securities	11,463	13,550	139,793
Retirement benefits	10,945	12,038	133,476
Compensation and bonuses	3,118	3,835	38,024
Allowance for doubtful accounts	1,490	1,492	18,171
Impairment losses on fixed assets	10,944	7,037	133,463
Elimination of unrealized gain	2,611	4,074	31,841
Loss on private equity and other investments	9,627	10,887	117,402
Loss on trading	5,198	7,018	63,390
Other	17,966	13,668	219,099
Gross deferred tax assets	267,100	225,392	3,257,317
Less: Valuation allowance	(244,577)	(186,512)	(2,982,646)
Total deferred tax assets	22,523	38,880	274,671
Deferred tax liabilities	11,655	6,716	142,134
Net deferred tax assets	¥ 10,868	¥ 32,164	$ 132,537

The Company and certain consolidated subsidiaries provided valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets. The valuation allowance was provided mainly against deferred tax assets stated at the Company and domestic subsidiaries with tax loss carry-forwards. In assessing the realizability of deferred tax assets, management considers, as part of its scheduling exercise, factors such as expected taxable income, reversal of temporary differences and utilization of tax loss carry-forwards, and determines whether it is more likely than not that the assets are not realizable in which case the valuation allowance is provided.

On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 38.01% for years beginning on or after April 1, 2012 and 35.64% for years beginning on or after April 1, 2015. For the year ended March 31, 2012, due to these changes in statutory income tax rate, net deferred tax assets decreased by ¥705 million ($8,598 thousand) and deferred income tax expenses increased by ¥1,385 million ($16,890 thousand) and valuation difference on available-for-sale securities increased by ¥798 million ($9,732 thousand) respectively. In addition, deferred gains or losses on hedges decreased by ¥118 million ($1,440 thousand).

15. Statutory reserves

The Financial Instruments and Exchange Act of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover future eventual operational losses caused by the securities company for customer transactions.

16. Contingent liabilities

Daiwa had contingent liabilities amounting to ¥2,630 million ($32,073 thousand) and ¥3,059 million at March 31, 2012 and 2011, respectively, mainly arising as guarantors of employees' borrowings.