

# Third-Party Opinion

This report has been reviewed and critiqued from the standpoint of an NPO familiar with sustainability reports by Mr. Toshihiko Goto, Chair of the Environmental Auditing Research Group and Director of Global Reporting Initiative (GRI), and from the standpoint of an expert in corporate ethics by Professor Iwao Taka of Reitaku University.

## Toshihiko Goto

Chair, Environmental Auditing Research Group (EARG)

Member, Board of Directors, GRI



Interest in corporate social responsibility (CSR) is high these days. The "social" in "corporate social responsibility," as it is commonly used, connotes the environmental, as well as human-rights and labor, aspects of corporate sustainability. The recent surfacing of corporate irregularities in Japan and the United States is not the only reason why CSR has come into the limelight. A bigger picture reveals a broad-based movement to review the role of corporations in the current structure of society. For example, Britain and France have already created a new Cabinet-level position—a minister responsible for CSR.

Against this background, the Daiwa Securities Group has begun issuing its sustainability report. This exercise in leadership is highly welcome, especially in Japan's financial-services industry, which is said to be lagging behind the world in this area. Creation of corporate value depends greatly upon the awareness of employees. In view of this, the first issue's choice of employees as the stakeholder group upon which to focus to promote a reorientation of institutional awareness, is considered a decision appropriately made. This

report, whose producer is a financial institution, is structured primarily to cover ethics and regulatory compliance and information disclosure, and this is considered appropriate since it is in keeping with the trends growing globally.

At the same time, some areas seem to be in need of further improvement, as indicated by the following points of advice I would offer for reference when producing future issues:

- An environmental management system should be established, and numeric data should be tracked for constant reporting.
- Understandably, social aspects tend to be expressed in qualitative terms, but efforts should be made to express them, as far as possible, in quantitative or numeric terms.
- Stated ideals must avoid ending up being empty slogans. For this reason, for example, in a report a program to achieve an ideal should be closely linked to a management mechanism to implement that program.

- Emulating the comparability of financial reporting is difficult, but heed should be given to designing a report to, at least, facilitate year-to-year comparisons.

Notwithstanding the above, reading the report reveals the serious attitude adopted by the Group, from top management downward, toward sustainability reporting. I hope that this reporting will contribute to improving the performance of the Group as a whole and lead to an improvement in the reputation it enjoys.

## Iwao Taka

Professor, Reitaku University, International School of Economics



Corporate management must be friendly to both the environment and society; otherwise, corporate growth cannot be sustained. With this concern in mind, the world's leading companies have begun issuing "reports on sustainable development." These companies have begun committing themselves to overcoming problems of global proportions and reporting on the progress. This should be highly welcomed. The same applause should greet the Daiwa Securities Group, which has recently issued its "sustainability report."

Reading this report, I find it particularly commendable that the Daiwa Securities Group honestly notes the missteps it has committed previously, scrutinizes them seriously, and articulates improvement efforts to prevent their recurrence. Companies issuing reports on sustainable development tend to allocate many pages to highlighting the positive or favorable aspects of corporate behavior, such as contribution to society. In contrast, the Daiwa Securities Group chose to note its past mismanagement and explain its all-out effort to regain confidence. This kind of reporting should get high marks in Japan's society today, where the honesty and integrity of companies is more and more rigorously tested.

Still, at the risk of appearing to be nit-picking, I would like to point out three areas that could be improved to guide the preparation of future issues. First, if

an English-language edition of this report is prepared, reference should be made to the question of why the report does not allocate many pages to discussing subject matters of great interest to the investors of Europe and America. It may be necessary, for instance, to briefly explain the fact that Japan's society and markets are more concerned about management's honesty than about such subjects as "diversity" or "contribution to community."

Second, again as a point to keep in mind when preparing English editions, the same words do not always convey the same meaning or concept when used in Japanese and in English. "Compliance" is a term whose usage requires extra caution. In Japan it is used to connote observance of law to the extent that not only the letter but also the spirit must be honored, whereas in Europe and America, it means mere observance of law. Therefore, an English edition which claims that the Group emphasizes compliance, while giving a backseat to such subjects as diversity or contribution to community, might implant in the minds of European and American investors the wrong images of the Daiwa Securities Group.

Third, this report articulates Daiwa Securities' "Solicitation Policy," but in future issues, a further step should be taken by explaining arrangements to control sales/marketing operations in

accordance with that policy. For example, the Company's key performance evaluation criteria for promotion of sales staff include, along with the number and amount of contracts won, accurate descriptions of risks inherent to products and services, and the number of complaints received from customers. Future issues should note this. Shifting the circulation of funds to increase direct financing vis-à-vis indirect financing is a high priority in the interest of the national economy and society. Because of this, efforts to establish sales/marketing rules and arrangements that give investors increased peace of mind when purchasing financial products should be welcomed by every quarter of Japanese society.

I proposed three points for improvement as above, but my suggestions for improvement are not designed to detract from the worth of this report. Rather, I would express my exultation at the Daiwa Securities Group's exercise of leadership in promoting accountability to its stakeholders at this time when most Japanese companies have not issued a report on sustainable development.



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