

Stakeholder Dialogue

The Group hosted an Experts' Roundtable on April 18, 2003 to try to answer the question, "What can the Daiwa Securities Group do to build a sustainable society?" We invited outside experts on such diverse topics as environmental issues, social contributions and consumer affairs to offer their unreserved opinions.

Participants

Dr. Naoki Adachi

Member of Rating Committee, Sustainability Management Rating Institute

Yukiko Furuya

East Japan Compliance Management Research Group, Nippon Association of Consumer Specialists (NACS)

Tadashi Hayami

Senior Fund Manager, Asahi Life Asset Management Co., Ltd.

Sachiko Kishimoto

Executive Director, Center for Public Resources Development

Masaaki Kogure

Senior Researcher, Institute of Prosocial Research

Yoshiki Midorikawa

Director, Green Consumer Research Group

Hiroaki Sugiyama

Graduate student at Tsukuba University and Secretariat, Global Reporting Initiative Forum Japan

Yoko Takahashi

Chief Director, Japan Philanthropic Association



Looking back on 2002 Sustainability Report

We started the discussion by asking participants for their impressions of the 2002 *Sustainability Report*. Midorikawa said, "I felt the report was written very sincerely." Takahashi and Kishimoto agreed that the forthright matter in which the report addressed Group problems showed that Daiwa Securities Group has resolved to restore the Group. Furuya added, "The report is commendable in that it examined Group problems, which will help build trust with customers." In general, there were many positive comments and the participants praised the Group's attitude on information disclosure.

Opinions were split, however, on the issue of the target reader the report should have been written for. By writing the report broadly for stakeholders outside the Group (customers, shareholders, investors and society at large) as well as employees, Kogure wondered if the Group had not lost track of who their target audience was. Midorikawa was more positive, saying that the report's multi-stakeholder approach was good enough without worrying about how to focus the content. Furuya suggested that "The report should make it clearer, from the consumer's point of view, whether you are really acting in compliance." She added, "If you fail to do that, it's hard to increase consumer trust, no matter how much you talk about law and ethics." Based on these responses, the Group realized it had to put greater emphasis on deciding what it wanted to say, and to whom.

As for employment, Midorikawa said that "Employment-related information disclosure is a weak point for Japanese firms, but this is of great importance to stakeholders, both directly and indirectly." This comment pointed out an issue that needed a closer look. Many students look at corporate environmental or sustainability reports when they are seeking employment; Sugiyama pointed out that "How you use your personnel and what your employment system is like are what students most want to know about." Thus we learned that we needed to describe employment practices in more detail.

Regarding issues and activities mentioned in the report, meeting participants expressed their belief that offering more concrete numbers and targets would make the report more effective. Kishimoto expressed the desire for more information about targets to be achieved rather than unconnected bits of data, while Takahashi added, "Even if there is little likelihood of reaching them, it's still important to have goals and then to work toward them."



What does society expect of us as an enterprise?

The second thing we wanted to ask was what the participants thought society expects of the Daiwa Securities Group as a business.

Adachi largely spoke for the invitees when he said that in an age when share prices are not simply going up and up, “The purpose of a securities company is not just to make more money for clients.” Explaining, he said, “The role of the finance industry is to make sure that the world’s flow of financial assets moves efficiently. A company has to act according to its own principles and vision rather than try to fulfill every wish the customer may have.”

Asked where we as a company should put our focus, Hayami pointed to “Those issues that all modern companies have in common, not just the securities industry. These include determining how to address social problems through its core business, and thinking about what one’s own company is capable of doing. Takahashi proposed that “Social contribution is fine, but what’s more important is how the company fulfills its social commitments in its core business.”

Thinking in these terms, Kogure said, “Makes it seem as if the 2002 *Sustainability Report* was expressing the Group’s corporate principles in a rather inward-looking way.” As he said, “When there is interaction between stakeholders and companies, the outcome based on company principles will occur.”

Kogure commented further that individuals are better able to decide where to invest their money when they know how it is being used. Hayami also made a reference to the basic principles of socially responsible investing when he said that as more companies describe their attitude toward the future, “It won’t even be necessary to refer specifically to socially responsible investing, because investors will be able to find for themselves those companies with an outlook like their own.”

Several participants, including Kishimoto and Furuya, pointed out that Daiwa Securities Group needs not only to disclose information to investors but also educate them. This conversation gave us the opportunity to see how many issues the securities industry faces.

The Daiwa Securities Group looks forward to hosting more of these meetings and using the comments they generate in our corporate activity.

Response to dialogue with stakeholders

In 2002 the Daiwa Securities Group put out its first *Sustainability Report*. Our Corporate Communication Department, which puts out both the *Sustainability Report* and the more financially oriented *Annual Report* for the Group, works hard to convey consistent messages to readers in these two reports. In 2002 we were for the first time releasing so much information in the form of the *Sustainability Report* and the process was completely new to us, but we

were glad to hear praise for our disclosure attitude from participants in the Experts’ Roundtable.

In this second report, the Group has endeavored to offer greater information on human resources and compliance, as our invitees suggested. Whereas in the first report, we focused on defining our current situation, in the second, we have followed their advice by setting targets and discussing our progress on them. Through this dialogue, we have learned that

socially responsible investing and investor education are two of the most important duties of the securities industry, and we look forward to carrying these out in our future work.

Toshihiko Onishi

General Manager, Corporate Communication Department,
Daiwa Securities Group Inc.

Third-Party Opinion



Yukiko Furuya

East Japan Compliance Management
Research Group, Nippon Association of
Consumer Specialists (NACS)

The Daiwa Securities Group has now released its second *Sustainability Report*. The Group and its corporate stance won praise for the first edition in 2002, which took an honest look at its management problems. That attitude is even stronger in the 2003 edition. Included here are objective discussions about the reality the Daiwa Securities Group finds itself in, including judicial and administrative penalties for violations of restriction on insider trading. Six pages are devoted to a detailed discussion of such topics as how the Group is stepping up its compliance efforts (particularly through the prevention and early detection of unfair practices) and the internal communication, training and personnel evaluation the company is undertaking to effect this stronger compliance. This report shows the reader directly that the Daiwa Securities Group intends to be a leader in corporate social responsibility.

Also praiseworthy is the fact that this report is written to be easy for the reader to read, as well as the fact that Daiwa Securities Group has made a sincere effort to incorporate the third-party opinions it included in the 2002 report. I attended the Group's Experts' Roundtable in April of this year and made the comment that the report should delve a little further into the nature of customer complaints and include some of their feedback. The Group acted right away and included that information in this report as well as details about specific strategies in response.

In these ways the attitude of the Daiwa Securities Group is in line with the objective of sustainability reporting, which is to provide information on pro-sustainability activities and social responsibility. Moreover, the *GRI Content Index* provided at the end gives readers an easy way to cross-reference guideline requirements with pages in the

report where the required content may be found. That helps make the report more objective. Finally, this report has a table balancing FY 2002 results on one side with future issues on the other, which is a good experiment in writing from the reader's point of view and clarifying company responsibility.

I do have a few suggestions for future reports and for the Daiwa Securities Group as viewed through these reports. First, while the structure of the report itself makes the content very easy to view, in some places, the lettering is so small that reading is difficult. Of course there are space limitations, but I hope future reports will find a way around this.

Second, I notice that the expression "accountability" and similar expressions occurred occasionally in the 2002 report, but for some reason there is little reference to this in the second report. It seems there should be a greater emphasis on the accountability, that possibly the Group should be more proactive on this point.

Third, as for the ways Daiwa Securities Group plans to be a leader in corporate social responsibility, the sections about corporate governance and compliance systems do an adequate job of conveying this information, but I believe the Group could enhance its corporate social responsibility efforts by applying definite standards. In the section *Information Disclosure*, for example, although efforts on behalf of corporate social responsibility are proceeding, the only policy mentioned in regards to information disclosure is that it shall be "timely, appropriate and fair." What is needed is some standard to guide the Group in assuring that information disclosures are timely, appropriate and fair, and even a standard that leads the Group to disclose information even when that disclosure is disadvantageous to it. The Group has now decided to adopt a disclosure policy, something which gives me high hopes.

Finally, while the Solicitation Policy was included in the *Compliance* section of the 2002 report, this year's report does not include it and only refers to it. To the extent it is possible, I would like to see the basic rules and laws affecting customer response quoted in their entirety. Additionally, I cannot tell how the Group's specific efforts to obey the Solicitation Policy and so on are linked to its sales and other systems, but they should be because this is one way that its efforts on behalf of corporate social responsibility are developed in concrete terms. I hope that Daiwa Securities Group will clarify this issue by establishing policies like the voluntary action standards it says are now under review.



Toshihiko Goto

Chair, Environmental Auditing Research Group (EARG)
Member, Board of Directors, Global Reporting Initiative (GRI)

Addressing the issue of corporate social responsibility in the *Third-Party Opinion* section of the Daiwa Securities Group's 2002 *Sustainability Report*, I wrote that there was "a broad-based movement to reexamine the role of corporations in the current structure of society." This issue has come to flower in Japanese society in the current year. I would suggest that these sustainability reports play a big role in the way officers and employees of the Daiwa Securities Group think through corporate social responsibility in Japan and the world.

The 2002 *Sustainability Report* mentioned issues still to be addressed, such as quantifying Group targets as much as possible, plus the Group has had to take on some serious incidents since the release of the 2002 report and face harsh opinion about that. Although these problems have not all been resolved, it seems to me that in the 2003 *Sustainability Report* the Daiwa Securities Group has made a sincere effort to improve and explain the issues. In particular, the Group has honestly addressed the indiscretions of some of its executives in its core business, and they talk about this in a way that makes it very clear they intend to learn from these cases. My hope is that Group officers and employees will act in solidarity and use this as a stepping stone to building trust.

Because society is built on trust, it goes without saying that trust should be the first item mentioned in the principles that express the soul of a corporation. The real issue, though, is how to achieve this trust. Here and there in this report I see the understanding that persistent, day to day effort is fundamental to this. The report mentions, for example, that the important and indispensable thing is the process itself of unceasing effort in the quest for perfection. But ideas this abstract are hard to make sink in throughout a large organization. The

2003 report says that the Group has begun taking a variety of steps to make this happen. For example, it is establishing a more detailed disclosure policy in FY 2003 and will establish a corporate governance principle the following year. Some may say the pace of writing these policies is too slow, but I believe this slow pace is good. If it were just a question of getting some words on paper, that could be done within a day. But engaging the input of many employees and officers and actually spending time will increase awareness of the process and inspire the members to think about the system they are putting into effect. I am convinced this is the type of effort the Group is making, not just coming up with a slogan.

As for what I would like to see in these reports in the future, I think there should be more emphasis on the Group's core business. Specifically, I would like to see the Group come up with more proactive basic policies on SRI, which also focuses on environmental issues for this, and create a system and means of support for regional and community investment. I'd like to see the Daiwa Securities Group anticipate the corporate social responsibility and SRI fundamentals that Europe is building into its economic and social policies.

About the Global Reporting Initiative

The Global Reporting Initiative, or GRI, is an international non-governmental organization established in 1997 and consists of diverse stakeholders including corporations, other non-governmental organizations, consultants, accounting organizations and business groups from around the world. The GRI authors the *Sustainability Reporting Guidelines* as a worldwide standard for reports issued for the purpose of achieving sustainable societies.

The guidelines do not provide models of good behavior or policies for it but rather appeal to corporations and organizations to report on their economic, social and environmental performance with the objective of increasing report quality, strictness and convenience.

As of August 2003, at least 309 corporations and organizations in 30 countries are using the GRI guidelines to create reports; 60 such companies are in Japan.

For more details, visit <http://www.globalreporting.org/>.