

Third-party Opinions

With regards to the Daiwa Securities Group's initiatives to promote corporate social responsibility, I would like to highlight two points of praise and suggest one issue for improvement.

The first point I'd like to praise is the Group's focus on social contributions through its core business. As presented in the Special Feature section of this report, the Daiwa Securities Group's CSR policy, drawn up based on clear principles and careful planning, involves emphasis on socially responsible investment (SRI) and the development and marketing of products based on the SRI concept.

Socially responsible investors have the desire to make the world we live in a better place. These investors are certainly on the rise and their concerns are becoming more differentiated. The Daiwa Securities Group is able to meet the expectations of these socially responsible investors, by clarifying and distinguishing its stock-picking criteria in response to the investors' diversifying and refining opinions. As a result, the Group has built up Japan's largest asset balance of SRI products.

The second point I commend is that the Group emphasizes ethical and legal compliance in order to improve the quality of its business and how it is conducted. The Group believes that by achieving a high standard in managing its business, the company can and will earn the confidence of its customers, including socially responsible investors.

After reviewing many companies, I have noticed that in the attempt to achieve full legal compliance on all aspects, companies sometimes lack the will to push through tough measures, resulting in only superficial efforts at compliance. In extreme cases, some companies just create and sign required compliance-related documents, hoping they will spare the company from scrutiny of its actual practices. The Daiwa Securities Group appears to be fully aware of such pitfalls, and has therefore made a determined effort to internalize the concept of legal compliance and integrity. Indeed, through the proper implementation of ethical measures, the Group has made real improvements to the quality of its business. But why go to such efforts? I think it is because the Group is keenly aware of the fact that it cannot offer SRI products to the public without first becoming a law-abiding corporate citizen and ethically respected company that has earned the confidence of its stakeholders.

Finally, I would like to point out an area in need of improvement. As the Group works toward improving the quality of its business operations, the number of customer complaints continues to increase at the same time.

The number of telephone complaints in fiscal 2005 increased by over 300 calls from fiscal 2004, reaching an annual total of more than 2,000 complaints. This development suggests that drastic measures must be taken to tackle this. Furthermore, the customer satisfaction surveys show that clients are unhappy when the handover of their accounts is managed poorly following a change in their account manager. Follow-up after sales was also highlighted as being poor. A greater number of complaints

may be expected as a result of the increase in the number of individual investors. However, to address the problem areas, some form of group-wide change is required. More importantly, the Daiwa Securities Group has chosen to be open about this issue and has included it in this report. This shows that the Group is ready and willing to take the necessary steps to make real improvements.

This highlighting of the problem of customer dissatisfaction could leave doubts in some readers' minds about how confident they can be in the Daiwa Securities Group. To answer this appropriately, let us take a look at what Daiwa Securities Co. Ltd. did after a large selling order was erroneously executed at a particular securities firm in 2005. As a result of an input error, it mistakenly sold a large quantity of stocks at a very low price.

As we see in the Message from the President, Shigeharu Suzuki, President and CEO of Daiwa Securities Group Inc., always tells his employees that he does not want any profits earned through unethical operations. If this were not the case, then the Daiwa Securities Group could have easily engaged in a massive purchase of the stocks, just like other individual speculators and institutional investors. However, once the Daiwa dealers noticed the spike in the volume of selling resulting from the erroneous order, they immediately stopped purchasing. During the few minutes that other companies were making large profits as a result of the error, frontline Daiwa staff made the decision without the need for direction from above.

I will leave the readers to decide whether or not the Daiwa staff made the right decision. In my opinion, however, I see their actions as proof that the top management's uncompromising integrity and honest stance towards ethical commitment have definitely become the foundation of the corporate culture at the Daiwa Securities Group.



Professor
Iwao Taka

Graduate School of Economics
and Business Administration
Reitaku University

In the Message from the President at the beginning of this report, Mr. Suzuki said he believed that the Group's improvement in business performance is due to the increased CSR-awareness of its employees. It is clear from the Round-Table discussions and other information provided here that the Daiwa Securities Group is making a commendable effort to make itself a company worth working for, especially in the area of providing female employees a supportive environment in which to work. However, employees, as an important group of stakeholders, should be encouraged to read the Sustainability Report more strongly, a necessary measure I suggested in last year's report. If they do so, they can appreciate the positive information presented here, and may feel more inclined to provide direct and indirect support for the company's CSR efforts.

It is natural to expect that it, as Japan's top financial institution, should take the lead, still I think the Daiwa Securities Group should be praised for being one of the first signatories to the United Nations Environment Programme Financial Initiative (UNEP FI) charter and the UN Principles for Responsible Investment (PRI). Although the tasks of effectively implementing specific initiatives to realize these principles are not easy, I expect the Daiwa Securities Group will have the determination to enforce them successfully.

As part of the Group's important CSR efforts, the content in its program for education and research in economics and finance has been expanding and gaining depth each year. Moreover, the Group, as a financial institution, has been tackling the very important issue of achieving "Compliance", and hence, has taken steps to enforce and strengthen its measures. I highly appraise these efforts, but people in the company should note that these do not fit the definition of CSR in Europe. "Compliance" is a different matter from CSR, and the CSR efforts described are seen as kinds of philanthropy and no more than a common-sense endeavor at profit appropriation. There is no reason to be bound by the European definition of CSR, but in light of the increasing

number of overseas shareholders, I think there is a need for an explanation in the English version of this report to clarify that given the financial conditions here in Japan, these measures for education and research are to be emphasized as part of Daiwa's core business.

In addition to compliance, environmental measures represent core Japanese values when it comes to CSR in Japan. As the Daiwa Securities Group is following its own set of guidelines, different from the ISO 14000 series of environmental management standards, typically used within the Japanese manufacturing industry, I think the Group's concept must be explained when it implements efforts overseas. As I put forth in my comments in last year's report, in such cases the Group should seek to clarify its efforts to help secure biodiversity.

It appears that the Daiwa Securities Group has yet to establish its corporate governance charter, which was originally planned for 2004. There have been major changes in the external legal framework concerning governance, such as the enactments of the Company Law in 2005, and the Financial Products Transaction Law in 2006. Therefore, I presume that this new legislation delayed the establishment of a group corporate governance charter. However, since the Group has already publicly stated its intention to create such a charter, it should address this issue and provide a timeline as to when it will be ready.

The investigation into the establishment of voluntary action standards across the Group, a recommendation I made in 2004, has begun. Positive standards can be created that go beyond compliance and place human capital at the core of corporate values. It is important to stipulate the content of the corporate governance charter and voluntary action standards so that corporate governance, and internal control in particular, can be established to enhance corporate value. While setting up an internal control reporting system is an issue to tackle in the future for the Group, I hope that Daiwa Securities will put these and other policies in place to serve as the top-running example to other companies.

The Daiwa Securities Group Sustainability Report has become better every year, and external reaction to it has also been increasingly friendly. Still, with the large volume of information, sections on Corporate Governance and others are a little hard to understand. While the more detailed explanations about business operations are clear, the amount of technical terminology has also increased. Indeed, to appeal to a wider, more general audience, a better explanation of these terms is necessary. I hope that the Group will also take advantage of the web to make future improvements and expand the amount of information being provided.

Progress has also been made on the statistical data provided to make results more apparent to the reader. However, based on the "Plan-Do-Check-Act" (PDCA) approach, the sections where only the first two items, "Plan" and "Do", are presented need to be followed up with details about the latter two items, "Check" and "Act". I hope an effort will be made in this respect for future reports.



Mr.
Toshihiko Goto

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