

The Corporate Governance Built by Daiwa Securities Group

Daiwa Securities Group has pursued the establishment of a highly transparent and objective system of corporate governance that is in line with international standards. As the economy and society become more globalized, the way corporate governance is implemented is now an ever-more critical issue to a company's continued viability. In the following, Keiichi Tadaki, an outside director at Daiwa Securities Group Inc., and Takashi Hibino, who this year resigned his position as President and CEO and was newly appointed as Chairman of the Board, exchanged their opinions with regard to corporate governance at the Daiwa Securities Group.



Keiichi Tadaki

Outside Director

SPECIAL DIALOGUE

Takashi Hibino

Chairman of the Board

Corporate Governance Has Raised Corporate Value

Tadaki: I was appointed as an outside director at Daiwa in 2009, and the eight years which followed was a tumultuous time. We were confronted with the worldwide financial crisis, and the Nikkei 225 tumbled to the 6,000-yen level. Severity in the business environment continued for some period after that. In 2009 we also dissolved our joint venture with the Sumitomo Mitsui Financial Group, and decided to return to being an independent-type securities company.

Dissolution of the joint venture amidst such a harsh environment, I think, put us at a disadvantage with regard to the procurement of funds. In those days, the biggest issue for Daiwa was how we could build a strong company that could continue to generate profits. After having been appointed as CEO in 2011, now Chairman Hibino set about reducing headcount among back office personnel, while boosting front office capacity, and doing his utmost to build a highly productive, robust business structure. It was so impressive to see the Daiwa employees at that time stand as one, and face those difficult circumstances with such fortitude. We outside directors also had our vision of how the securities industry should look in the future, and we continued our work on making proposals that would take us to where we are at today.

Next, in the current Medium-Term Management Plan, launched in FY2015, we positioned as a goal of the Group the support for people to conduct asset building activities in an era of transition “from savings to investment.” This goal is a clear banner raised not for the simple acquisition of profit, but is a signal intended to press Daiwa on its significance to society. Taking the perspective of stakeholders, including shareholders, we outside directors also deepened our deliberations on whether or not the Executive Management Committee’s stance was appropriate in terms of social common sense. It has become evident now that this was the right direction to take, and I believe that Daiwa has been leading the securities industry as the standard bearer of Japan’s securities business.

Hibino: Mr. Tadaki and others with expertise in a variety of areas make up the members of the Group’s outside directors. The role that the CEO expects the outside directors to perform is to keep a close eye on things when formulating a major strategy to make sure that the decisions made on the executive side are not

mistaken, and that they are not straying from the direction that the Group should be pursuing.

The Group was quick off the mark to adopt the Committee System format, meaning that we are moving forward on the delegation of authority to executive officers, enabling a fast and decisive response on the front lines of business. However, in the eight years since we asked Mr. Tadaki to become an outside director, even in the history of the Group, this was a period of ongoing momentous events and decisions. When management and employees are constantly responding to such tough conditions, the people in the Group and I may have a feeling of doubt about the appropriateness of what we are doing. However, given all of the outside directors providing to us their sound opinions and guidance, more than just at the management level, the Group as a whole had the confidence, and was able to come together. I feel that this gave us great strength.

Tadaki: My own personal belief is that corporate governance really gained serious attention around the world from the mid-2000s, but Daiwa had already adopted a Committee System and had commenced the engagement of independent outside directors. At present, independent outside directors chair all three committees, covering nomination, compensation and audit, and in each of the committees, outside directors make up more than half the members. FY2016 saw an increase in the number of outside directors, and together with that, there were more members in both the Nominating Committee and Audit Committee,



“ Daiwa Securities Group positioned as a goal of the Group the support for people to conduct asset building activities. This goal is a clear banner raised not for the simple acquisition of profit, but is a signal intended to press Daiwa on its significance to society. ”

among other initiatives to strengthen governance that is agile and sustainable. I believe that governance at Daiwa is quickly reaching global standards.

In addition, from FY2017, an outside director became the chair of the Nominating Committee, which I believe was another turning point. Daiwa, being an enormous global organization of some 15,000 employees, means that it is extraordinarily difficult for outside directors to make comparative assessments for each individual, and to make decisions on the executive officers who will fairly oversee respective divisions both in Japan and overseas. As a specific role, there is the selection based on face-to-face meetings with director candidates, and in an unfortunate case, in the event that an executive's behavior runs counter to the interests of shareholders or other stakeholders, the Nominating Committee can execute its authority and replace the director, or suggest that a CEO be replaced, among other actions. I believe that the very existence of such a system will work to insure a company's transparency and viability over the long term.

Hibino: As Mr. Tadaki stated, the trust of society is one of the most important values for a company. Actually, what spurred us to take serious action on corporate governance was the 1997 corporate extortionist incidents. Starting with the big four securities companies at the time, the securities industry as a whole had completely lost the trust of society, and the situation was such that most of the presidents of the main securities houses had resigned. It just so happens that this occurred right around the time of the financial panic of the Asian economic crisis, and the securities industry fell into a critical situation.

Amidst such conditions, Daiwa Securities Group became the first listed company in Japan to adopt a holding company structure, so as to somehow regain trust in the Group, and to bolster our financial situation. A holding company is an excellent structure for its function of oversight of Group business operations. With the intent to further reinforce this, we voluntarily established our Advisory Board by inviting experts, including those with legal specialties. The Advisory Board meets once a quarter, and has a structure that works to elicit management-related opinions. At the time, we also used our discretion and established a Compensation Committee. Following that, the executive officer system and committee system came to gain legal recognition, and from 2004 to the present, the Group has adopted a Three Committees System.

Positioning of the Corporate Governance Code

Hibino: As a code of conduct that should serve to protect listed companies, the Corporate Governance Code, which started from 2015, was a topic for deliberation at the Board of Directors. In light of this, our approach is from the perspective that we "comply" with all principles. All companies have their respective characteristics, and of course there are a variety of business types, with large and small scale, degree of overseas expansion and format of ownership. The true form of corporate governance, I suppose, is uniquely structured to operate by matching the respective conditions within an individual company. I also believe that each company has different expectations for outside directors.

What this means is that the Corporate Governance Code is something that has clearly organized common categories with regard to the unique conditions within respective companies. There are many companies that have the view of an "explanation" of the Corporate Governance Code, but at the Daiwa Securities Group we interpret the Code in a more universal sense.

The Group operates in the financial industry which is responsible for financial markets, and consequently, we also come from a perspective of providing to our client companies advice based on a proper understanding of, and working with the Corporate Governance Code. The Code is one template, and clarifies points in question. Rather than just that all listed companies should strictly adhere to the Code, I believe it is more of a working draft upon which each company can consider respective corporate governance.

Tadaki: Presently, the percentage of Japanese company stocks held by foreign investors is increasing, and the percentage held by institutional investors is just as much as that of shares held by corporations. Given this situation, and because corporations also retain risks such as derivative lawsuits from shareholders themselves, both corporations and institutional investors find themselves in an era in which there is intense monitoring by the market with regard to the exercising of voting rights.

In such an environment, companies will to the extent possible disclose information to stakeholders, and it is critical that the public gain an understanding of what they are thinking. The same goes for communicating with employees. You may have the

image of corporate governance as something in which orders go from top to bottom, and that everything will be fine as long as those orders are carried out. But that is not the case. True corporate governance is when people who are doing the work have a grasp of what the current goals of a company happen to be, and they buy in to these goals, working as one. This raises productivity, and boosts corporate value. Of course, this will also positively influence share price, and will have a huge impact on the way society views Daiwa's presence.

In this context, you can say that corporate governance in Japan has been systemized in line with the Code. Our outside directors stand in between these stakeholders and the Executive Management Committee, which is responsible for corporate management. With an understanding of what is proper in today's society, and what is required in order to keep the Daiwa Securities Group developing into the long term, the outside directors, I believe, have the role of continuing to provide counsel.

Further Enhancing Governance

Tadaki: To make corporate governance functions even more robust, in 2016 we launched the Outside Directors Council. Meetings are currently held twice a year, and attending one of those are the CEO and Chairman so that they can exchange opinions with the outside directors.

The CEO and Chairman will provide their unofficial comments on things like what the intention of the Group is with regard to issues that are currently being deliberated, and regarding such issues, the outside directors will convey their respective opinions. The outside directors have their different backgrounds, and their own individuality, so there likely will not be a single opinion. The CEO will take those views as a guide for the next meeting, and for their part, the outside directors will have a reference for knowing the direction of future Board of Directors' meetings.

In the other meeting, the outside directors discuss a variety of matters amongst only themselves. For example, as Daiwa is a pioneer of fund wrap services in Japan, it has come to be the leading driver of the market. Nonetheless, in order for more of the Japanese public to have an understanding of fund wraps, and to further expand upon their prevalence, the outside directors deliberated on the idea that there might be merit in having a management fee structure that is easier to understand, therefore better gaining client

interest. We then organized the topic, taking a single perspective, and made a proposal to the executive side so that it would be taken up as a topic for deliberation at the next Audit Committee meeting.

Hibino: The Outside Directors Council I attended as a CEO last year was a more unofficial venue than the Board of Directors meeting, so it was significant in that it was easier to discuss things in a more frank manner. Communication between the Group's outside directors and the executive side, including about this initiative, is, I believe, sufficiently achieved.

The Corporate Governance Code also cites holding meetings in which only the outside directors attend, so this also prompted the Group to develop such meetings.

In addition, with regard to the evaluation of the Board of Directors' effectiveness, each outside director and executive officer have their respective functions at the Board of Directors meeting, and self-appraisals are made from a variety of perspectives. It is through such self-appraisals that the effect is magnified, namely, this raises the consciousness of governance held by members of the Board of Directors.



“The trust of society is one of the most important values for a company.”

Looking to Realize Our Vision

Hibino: Corporate management, at its essence, should be thought out by the corporate executive officers; however, for objectivity, it is also extremely important to have the opinions and judgments of outside directors.

Moving forward, under the management of newly appointed CEO, Mr. Nakata, we will commence the formulation of a medium-term management plan set to start in FY2018. In future Executive Management Committee meetings, we will work up a rough draft of strategies, but to do this we ask for the varied advice of the outside directors, which we will then reflect in the planning and formulation process of the management plan.

In order to realize the Group's vision of "leading the development of capital markets in Japan and Asia, and being the customer's first choice securities group," we will take measures to fully leverage the consulting function provided by outside directors.



To become the customer's first choice securities group, and to lead the transition "from savings to investment."



Tadaki: Daiwa's foremost corporate principle of "building trust" espouses the policy of putting the customer first. As the standard bearer of this customer-first ideology in the securities industry, moving forward it will be necessary to present the specific measures of all our business divisions, which I believe will be an enormous undertaking. We outside directors will offer our cooperation, and hope to contribute so that Daiwa will be the leader in the transition "from savings to investment."