

RESPONSE TO THE HOME OFFICE TRANSPARENCY IN SUPPLY CHAINS CONSULTATION

Submission by the UN-supported Principles for Responsible Investment

September 2019

ABOUT THE PRI

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. Originally set up by the UN in 2005, the PRI is now a not-for-profit company with over 2,500 signatories (pension funds, insurers, investment managers and service providers) to the PRI's six principles globally with approximately US \$89 trillion in assets under management; 366 of these signatories, representing \$9 trillion, are based in the United Kingdom.

The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that ESG factors make to investment performance, the role that investment plays in broader financial markets and the impact that those investments have on the environment and society as a whole.

Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. It is driven by a growing recognition in the financial community that evaluation of ESG issues is a fundamental part of assessing portfolio value and investment performance.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

EXECUTIVE SUMMARY

The PRI welcomes the UK Government's commitment to strengthening section 54 (transparency in supply chain requirements) of the Modern Slavery Act and wishes to reiterate its support to the actions of the UK Government in the fight against modern slavery.

The discovery of forced labour or modern slavery in companies' operations and supply chains can present risks including supply chain disruption, damage to brands and may harm companies' license to operate. These risks are important to investors as they may impact long term returns. Meaningful disclosure of human rights performance can play a significant role in reducing a company's human

rights risks and negative impacts, contribute to a company's competitive advantage, and strengthen its long-term financial stability.

While we recognise that companies are making efforts to provide good quality human rights disclosure, on the whole investors have limited information on companies' efforts to address risks related to forced labour.

The UK Modern Slavery Act was ground-breaking when it was introduced, which we have noticed have galvanized efforts since in other financial markets such as France and recently Australia. However, we believe there are opportunities for the Government to strengthen section 54 of the Modern Slavery Act. This includes more specifically;

- **Mandating companies to report on the six areas currently suggested in the Act.** The resulting granular and consistent information will help investors assess company risk more effectively.
- **Improving reporting on the efficacy of company actions.** Few statements describe how companies seek to identify risks or proactively addressed instances of modern slavery in their operations or supply chains. We welcome more companies to report instances of modern slavery that they have proactively discovered in their supply chain along with how they have remedied (or prevented) the situation.
- **Improving implementation of the Act.** Since the introduction of the Act, there is evidence that a lack of clarity of which organisations are covered by the mandatory reporting requirements has hindered investors to understand the scope of the Act. Therefore, we support various steps to improve the implementation of the Act, including a central registry for statements, a list of companies required to report under the legislation and any sanctions for non-compliant companies. Greater clarity and stronger transparency would create a level playing field, improving the amount of information available that would help investors make informed investment decisions.

These steps will support the business community to respond more effectively to modern slavery risks and impacts and develop and maintain responsible and transparent supply chains, which in turn will help investors make informed investment decisions and to meaningfully engage with companies to mitigate these risks.

As an investment membership association, we deemed the below sections to be most appropriate for us to provide a response to. In addition to this submission, the PRI would be happy to elaborate on the responses below.

RESPONSE TO DETAILED QUESTIONS

Section 1 – Content of statements

3a) If the legislation was amended to mandate the areas that statements must cover, which of the six areas currently set out in Home Office guidance should be required?

- A. Your organisation's structure, its business and its supply chains;**
- B. Your organisation's policies in relation to slavery and human trafficking;**

- C. Your due diligence processes in relation to slavery and human trafficking in your business and supply chains;**
- D. The parts of your business and supply chains where there is a risk of slavery and human trafficking taking place, and the steps taken to assess and manage that risk;**
- E. Your effectiveness in ensuring that slavery and human trafficking is not taking place in your business or supply chains, measured against any performance indicators as considered appropriate;**
- F. Training and capacity building about slavery and human trafficking available to your staff.**

As modern slavery and human trafficking is a systemic issue, it is unlikely that any organisation do not have slavery within their supply chains. As such, we would highlight good practice for an organisation to identify incidents of slavery through detailed due diligence of supply chains, provide and enable remedy and support to the survivors identified, and to be transparent and report these actions.

We would support that all six areas should be required to be reported on. Greater detail in the reporting requirements will bring helpful clarity and understanding for companies, strengthen the incentive for them to proactively identify and disclose risks, and encourage companies to take a longer-term approach to combatting modern slavery. This will help investors make an informed assessment of the risks the companies face and how they are managing them.

Reporting how a company is governing its response to modern day slavery or forced labour at a high level is crucial for investors. In our view, and based on investor dialogues with companies as part of collaborative engagements on supply chain labour practices, board level oversight of labour practices is important for the protection of long-term shareholder value.

Better disclosure of companies' efforts to map supply chains and to undertake due diligence is a critical indicator of the company's understanding of its risk exposure. Information about the nature and depth of supply chains, details of sourcing countries and the source of labour that the companies draw upon are useful for investors to better understand a company and its complex supply chain, but also helps demonstrate that the company is fully understanding its supply chain and has better clarity on how to manage it well.

Clear reporting on a company's due diligence process in relation to slavery and human trafficking helps investors assess the steps and actions the company has taken to address, mitigate and prevent incidents of modern slavery.

The effectiveness of actions taken is essential to demonstrate how the efforts and actions taken by companies are affecting people involved in their supply chain. In addition, it is crucial for staff to be able to identify and flag any concerns of potential or actual incidents of modern slavery, and therefore training and capacity building of staff is key to better respond to these risks. It also demonstrates how integrated a response to modern slavery is within a company.

Section 2 - Enforcement

7) In addition to the ability to publish and view modern slavery statements, which features

should a central registry should include?

- A. Modern slavery statements are accessible automatically through an application programme interface (for example to support analysis by third parties)**
- B. Organisations who have reported are available as a downloadable list**
- C. Guidance to help organisations to prepare more effective modern slavery statements**
- D. Guidance to help consumers better understand modern slavery statements**
- E. Functions to enable easier comparison of modern slavery statements**
- F. Any other features - please specify**

We support a central registry for where companies can publish their statements. By publishing a statement on the central registry, investors will be better able to check compliance and implementation of the Act by companies. It would also enable the quality of a company's modern slavery statement to be compared with other company statements, and as such could act as a good incentive for companies to improve their reporting. This allows investors to make year-on-year comparisons of companies' efforts and progress, and enables investors with an overview of regular monitoring of progress.

We support a user-friendly and accessible application programme interface. An easily searchable and up to date list of organisations that have reported would be helpful for those accessing data on the registry.

Inclusion of information about the reporting organisation (name, sector, company size, stock exchange, ticker etc.) would be helpful to be able to better filter responses and integrate the data into existing processes for investors in their assessment and engagement with companies.

It would be beneficial to have a list of companies that are required to report, in addition to a list of organisations that have reported. This would be helpful for all stakeholders monitoring the implementation of the Act.

We would also support guidance by the government on how to prepare more effective modern slavery statements as a helpful resource for organisations.

10a) Should any variable penalty for failing to publish a modern slavery statement or failing to publish a fully compliant statement be capped at a maximum prescribed amount?

Please explain your answer.

We support any move by the regulator to improve compliance and implementation with the Act and do not oppose the introduction of financial penalties for non-compliance. However, we believe that it is for regulators to decide on the nature of the penalty for non-conformers, and its severity. The regulator could also provide implicit reward for companies with strong reporting. A best in class approach might incentivise the laggards to improve their reporting.

Section 3 – public procurement

While we are supportive of the notion that the public sector should report on their response to modern slavery and interrogate the statements produced by their suppliers, and strongly welcome the

incorporation of public procurement to be within the scope of the revised UK Modern Slavery Act, we do not have sufficient expertise for PRI to comment specifically on this.