

Dear Sir/Madam

We welcome the opportunity to provide feedback on this consultation.

Hermes Investment Management (Hermes) is an asset manager with a difference. Our purpose is helping beneficiaries retire better by providing world class active investment management and stewardship services. With £34.1 billion in assets under management (as of 30 June 2019), we focus on holistic returns – outcomes for our clients that go far beyond the financial - and consider the impact our decisions have on society, the environment and the wider world. Our stewardship team, Hermes EOS, is one of the world's leading engagement resources, advising on approximately £501 billion (as of 30 June 2019) assets under advice invested in over 10,000 companies worldwide. The views expressed in this communication are those of Hermes and do not necessarily represent the views of all clients.

At Hermes, we are committed to running our business responsibly. We endeavour to uphold high ethical principles and to respect human rights. It also means doing our best to encourage high standards in our supply chain and business. We report according to the requirements in the Modern Slavery Act (2015) and use it as an opportunity to review the way in which we operate our own business and how we interact with others, including clients and suppliers. We have also considered the area where we have the ability to make the most impact – our investments. Our objective is to ensure that there is no modern slavery or human trafficking in any of our business dealings.

Our response can be summarised in these key points:

1. We believe that no industry is free from the risk of modern slavery and that, consequently, companies should report on all six areas currently recommended in the Modern Slavery Act. They are all necessary for an effective response to modern slavery and should be disclosed presenting a full picture of business' efforts. By the same logic, we believe that 'comply or explain' is not the right approach as it might diminish the drive for companies to critically examine their operations and supply chains. We expect companies to proactively identify areas of modern slavery risks and opportunities to improve human rights impact in their operations, undertaking an authentic, thorough and bottom-up analysis of their own unique business model and operating environments. This is aligned with the spirit of the revised 2018 UK Corporate Governance Code that promotes business purpose, future-fit culture and values and clear and meaningful reporting¹.
2. Increased transparency by companies about risk and lessons learnt can encourage collaboration and joint solutions. Based on our experience, effectively addressing modern slavery often requires multi-stakeholder initiatives. Government should do what it can to make the reporting and requirements as clear as possible, for example by creating a reporting template that guides companies whilst providing sufficient flexibility for companies to adequately explain the context in which it manages modern

¹ <https://www.frc.org.uk/news/july-2018/a-uk-corporate-governance-code-that-is-fit-for-the>

slavery risks. We also encourage a flexible approach to incentivise high-quality reporting. While we do not oppose penalties for non-compliance, we believe the government could also highlight top performing companies to provide encouragement.

3. We support the creation of a central registry to enable stakeholders, including investors, to access companies' modern slavery statements. Allowing live data to be accessed in a standardised way through an application protocol interface would enhance the value of the platform and allow stakeholders to analyse and present information tailored to their interests and audiences. A central registry should also include the list of companies caught by the Act's reporting requirement, regardless of whether they have submitted a compliant statement. This would help increase Act's effectiveness in driving transparency among companies not typically targeted by civil society.

Section 1: Content of statements

Question

1a) Are you an organisation which currently publishes a statement? If so, which of the following areas do you currently report on:

- 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.

Answer

Yes. We report on areas A through F.

Question

1b) How many individuals, for how many days, were involved in collecting the information included on your statement?

Answer

We find it difficult to accurately estimate these figures due to the distributed and interconnected work of preparing our modern slavery statement.

Question

1c) If you were to report on all the 6 areas set out above, how many individuals do you think would be needed over how many days to collect the information required for the statement?

Answer

See answer to previous question.

Question

2) Would mandating the areas that statements must cover encourage organisations to take effective action? Please explain your answer and include details of any alternative proposals to encourage further action.

Answer

We believe that the Modern Slavery Act has driven increased awareness of the risk of modern slavery and led to increased efforts by business to assess and mitigate risks. However, many statements still lack enough detail on a company's approach to address modern slavery. This includes: a lack of detail on the process through which a company conducts due diligence; where - in its operations or supply chain - risks of slavery are identified, and how those risks are managed; and an assessment of the effectiveness of their efforts. The lack of concrete information diminishes the level playing field the Act intended to bring and makes it more difficult for individual companies to share openly the challenges and findings that often stem from addressing a complex and difficult issue like modern slavery. Increased transparency would also encourage collaboration between companies, and between business and civil society to address systemic issues and root causes.

While it is important not to create a tick-box exercise, companies could benefit from a reporting template that supplies clear guidance on what to disclose and allows flexibility to adequately explain their efforts as befits their individual business models. This would also make comparison of companies easier for investors and other stakeholders.

Question

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.

Answer

We believe that the six areas are interconnected and together underpin any effective approach to addressing modern slavery. Statements that lack detail on, or completely omit one or several of the areas make it difficult to assess the risk a company is facing, and the actions taken to address it. As such, we encourage the mandatory reporting to cover all areas.

Question

3b) Are there any further areas not mentioned above that should be required? If yes, please state which.

Answer

No.

Question

3c) Should any of the six suggested areas (and any additional areas suggested) be combined? Please explain your answer.

Answer

As the areas are now established and we see no clear and immediate advantage to combining them, we believe the current question set should remain intact.

Question

4) Should organisations be able to choose not to report on one or more of the required areas if they provide an explanation for omitting this area? Please explain your answer.

Answer

It appears unlikely that any company would have no risk of modern slavery in its operations or supply chain. Consequently, explanations in lieu of reporting would be expected to be of little value and could preclude a genuine due diligence process that would uncover risk in areas the company had not previously considered.

Question

5) Would organisations face any challenges if it became mandatory to report on specific areas? If so, what would you consider these to be?

Answer

Increased expectations to report could create challenges and clarity from government is important so that companies can easily understand what they need to report on and in what format. The risk of reputational damage should be considered, and government should aim to incentivise and highlight companies that report transparently on risks and cases of modern slavery.

Section 2: Transparency, compliance and enforcement

Question

6) Would there be any challenges associated with requiring organisations (including businesses) in scope of the Act to publish their modern slavery statement on the Government registry? Please explain your answer.

Answer

The lack of a central, approved registry has created challenges for civil society to provide the level of scrutiny that would have driven the improved transparency the Act was designed to accomplish. As a response, at least two non-governmental organisations have separately created registries to enable comparisons and tracking of companies' disclosure. A well-designed, government-run registry would strengthen the incentive for companies to produce meaningful and legally compliant statements. We do not believe it would pose any challenges to businesses.

Question

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

Answer

We believe all of these are good suggestions that would add value to a central, approved registry. However, in order to prioritise among them, it is important to recognise the benefits to civil society and other stakeholders that are crucial to driving progress in practices through scrutiny, analysis and comparison of statements. Therefore, we believe that the following features should be prioritised:

- A. Application programme interface (API). API's are highly useful for third-party organisations to access live data and create reporting, linkages to other data, and comparisons tailored to specific audiences.
- C. Guidance is crucial to reduce uncertainty for business and to help focus resources. Ideally, such guidance should have specific parts to support companies in sectors where there is less information and precedent in terms of reporting.
- F. A list of companies that are legally required to report but have not submitted a statement.

Question

8a) Would establishing a single reporting deadline make the reporting process clearer for organisations captured by the legislation?

Answer

We believe that a single reporting deadline would simplify the set of requirements and thus make it easier for companies. It would also ease comparisons between companies by investors and other stakeholders.

Question

8b) If you are an organisation required to publish a statement, what would be the challenges of publishing on a single reporting deadline, including any additional resource or cost implication? Please explain your answer.

Answer

Depending on the when a deadline falls, it could conflict with other reporting requirements and create challenges in terms of securing sufficient resources.

Question

8c) Would single reporting deadline make it easier for external parties to scrutinise whether an organisation has published an up to date statement? Please explain your answer.

Answer

We believe that a single reporting deadline would make it easier to identify if companies have published an updated statement.

Question

9) If a single reporting deadline is introduced, which annual date should be used?

- A. March 31 (most UK-registered companies' financial year end)

- B. 30 September (six months most UK-registered companies' financial year end)
- C. December 31 (the end of the calendar year)
- D. 30 June (six months after the end of the calendar year)
- E. 30 March for public sector organisations, and 4 April for other types of organisations (in alignment with Gender Pay Gap reporting deadlines)
- F. Other – please specify

Answer

We currently report on June 30th, but do not have a clear preference. Ideally, though, the deadline should not clash with other major reporting deadlines.

Question

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.

Answer

We believe that it is for regulators to determine what would be an effective penalty scheme but would encourage the consideration of incentives for companies to produce meaningful and relevant statements.

Question

10b) If yes, what do you think the maximum sum should be? Please explain your answer.

Answer

We do not have an opinion on the maximum sum.

Question

11) If the reporting requirements are extended to the public sector, should a civil penalty scheme also apply to public sector organisations? Please support your view.

Answer

We do not have an opinion on whether a penalty should apply to public sector organisations.

Section 3: Public sector supply chains

Question

11a) Should the requirement to publish a modern slavery statement be extended to large public sector organisations that are not currently captured by the legislation?

Answer

Public sector organisations are exposed to risks of modern slavery and it follows that they should report according the Act in the same way as corporations. Considering the size and scope of public procurement it is also a chance to demonstrate leadership and contribute to the transparency, dialogue and collaboration needed to address the complex issue of modern slavery. The public sector could also play a significant role in influencing private enterprises towards better practices by sharing lessons learnt. We appreciate the opportunity to provide input to below questions, but believe we are not best placed to do so because of the nature of our business.

Question

11b) What would the benefits of extending the reporting requirements to large public sector organisations not currently captured by the legislation be?

Answer

N/A

Question

11c) What challenges could public sector organisations face in producing a modern slavery statement?

Answer

N/A

Question

12a) Should budget be used to determine the threshold for which large public-sector organisations should be required to publish a modern slavery statement?

Answer

N/A

Question

12b) If yes, should the budget threshold should be £36 million? Please explain your answer.

Answer

N/A

Question

12c) If no, what alternative metric should be used to determine the threshold for reporting?

Answer

N/A

Question

13) Should public sector organisations be able to publish a 'group statement'?¹⁴ Please explain your answer and if you are a public sector organisation please include any relevant examples of the group structure which you might report under.

Answer

N/A

Question

14) Should public sector modern slavery statements be approved by the most senior managing body and signed off by the accounting officer, Chief Executive or equivalent role? Please explain your answer.

Answer

N/A