

MODERN SLAVERY REPORTING – GUIDE FOR INVESTORS

NOVEMBER 2019



ABOUT

This guide was prepared by the Australian Council of Superannuation Investors (ACSI) and the Responsible Investment Association Australasia (RIAA)

ACSI provides a strong, collective voice on environmental, social and governance (ESG) issues on behalf of 39 Australian and international asset owners and institutional investors. Collectively, they manage over \$2.2 trillion in assets and own on average 10 per cent of every ASX200 company. Through research, engagement, advocacy and voting advice, ACSI supports members in exercising active ownership — strengthening investment outcomes.

Active ownership allows institutional investors to enhance the long-term value of savings entrusted to them. Working collectively, ACSI members can achieve material outcomes for their beneficiaries and deliver genuine and permanent improvements to the ESG practices of the companies in which they invest.

RIAA champions responsible investing and a sustainable financial system in Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 260 members managing more than \$9 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. RIAA membership includes super funds, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals.

Contributors

ACSI and RIAA would like to thank the following people and organisations who have contributed to this guide.

Primary Authors

- **Ausbil Investment Management Limited:** Måns Carlsson-Sweeny (Head of ESG Research)
- **ACSI:** Kate Griffiths (Executive Manager, Public Policy and Advocacy), Ian McIlwraith (Governance and Engagement Analyst)

Working Group

- **Ausbil Investment Management Limited:** Nicholas Varcoe (ESG Analyst)
- **Australian Super:** Sandra Silea (Analyst, ESG and Stewardship)
- **KPMG Australia:** Dr Meg Brodie (Director, Human Rights Service Line Lead)
- **Mercer Investments (Australia) Limited:** Timothy Stamp (Senior Associate, Responsible Investment)
- **National Australia Bank:** Rosemary Bissett (Head of Sustainability Governance and Risk)
- **QIC:** Kate Bromley (Head of Responsible Investment)
- **Responsible Investment Association Australasia:** Nicolette Boele (Executive Manager)
- **Solaris Investment Management Limited:** Lisa Domagala (ESG Analyst)
- **Action Sustainability Asia Pacific Pty Ltd :** Mark Lyster (Managing Director)

Reviewers

- **PRI:** Bettina Reinboth (Head of Social Issues)
- **FSC:** ESG Working Group Members

ACSI and RIAA would like to acknowledge and express their gratitude for the helpful insight and comments from Mark Bland and Luke Geary of Mills Oakley.

INTRODUCTION

This guide has been prepared by ACSI and RIAA to provide a framework for investor reporting. It provides broad context on matters investors may wish to consider in preparing their modern slavery statements and should be used [in conjunction with the guidance provided by the Australian Border Force](#) (Government Guidance). While both supply chains and investments are addressed in this guide, it has been prepared primarily to provide additional information for investors on how they might address their investment activity in their modern slavery statements. This guide offers suggested approaches, and it is acknowledged that there could be other, equally appropriate ways to prepare modern slavery statements.

The Act is focussed on transparency, aiming to inform external stakeholders what reporting entities do to mitigate the risk of slavery and to encourage a 'race to the top amongst businesses competing for market funding and reputational reward'. Of course, investors will want to comply with the Act and they will need to seek advice from an appropriately qualified professional in this respect. In addition to mere compliance, this guide encourages investors to consider how they can develop their capacity to identify, manage, address and remediate modern slavery risks and impacts. The exercise will be significant and needs to be appropriately staged over time. Reducing the risk of modern slavery (or eradication of modern slavery as per the UN Sustainable Development Goals) will be a lengthy and iterative process where investors can play a role. Ultimately, it is up to each reporting entity to decide how it reports (subject to addressing the mandatory criteria).

ACSI and RIAA's guide is not legal advice and should not be relied upon as such. Each entity should seek its own legal advice on their obligations under the Act from appropriately qualified professionals. In addition, this guide does not address the obligations entities, directors or trustees might need to take into account under applicable laws. Although the Act sets out remediation processes for reporting, given the nature of remediation, it is outwith the scope of this guide.

In addition, the New South Wales government passed modern slavery legislation in 2018¹, which is based on similar reporting requirements as the Commonwealth Act but with a different threshold: annual turnover of at least \$50 million and at least one employee in NSW. Non-compliance with the NSW Act can result in fines. This guide does not address the NSW Act.

Message from the Modern Slavery Business Engagement Unit, Australian Border Force:

Modern slavery can occur in every industry and sector and has severe consequences for victims. Investors can play a vital role in combating modern slavery, such as by addressing modern slavery risks in their investment portfolios. The Australian Border Force welcomes multi-stakeholder collaboration within and across high risk industries and sectors to provide guidance on implementing the Modern Slavery Act, including to develop tools and resources to support compliance. This best-practice guidance complements the Australian Government's official guidance and will support investors to meet their obligations under the Modern Slavery Act. We encourage investors to read and apply this guidance to develop their capacity to identify, manage and remediate modern slavery risks and impacts.

¹ <https://www.parliament.nsw.gov.au/bills/Pages/bill-details.aspx?pk=3488>

BACKGROUND

The Commonwealth Modern Slavery Act 2018 (Act) was passed by the Australian Parliament on 29 November 2018 and entered into force on 1 January 2019. The first reporting period is the first period following 1 July 2019. For most entities, this will be 1 July 2019 to 30 June 2020, with the first modern slavery statements due on 31 December 2020 (or 30 June 2021 for reporting entities with a calendar year financial year).

The Act reporting threshold requires entities based, or operating, in Australia which have an annual consolidated revenue of more than \$100 million to report annually on modern slavery. Other entities based or operating in Australia may report voluntarily.

These entities must report on the risks of modern slavery in their operations and supply chains, the actions taken to assess and address those risks, and how they address the effectiveness of those actions. The Act defines modern slavery to include eight types of serious exploitation – trafficking in persons, slavery, servitude, forced marriage, forced labour, debt bondage, deceptive recruiting for labour or services and the worst forms of child labour (situations where children are subjected to slavery or similar practices, or engaged in hazardous work).

Reports will be made public via an online database.

The Act sets out mandatory criteria for modern slavery statements. A modern slavery statement must:

1. Identify the entity that is reporting (section 16(1)(a));
2. Describe the structure, operations and supply chains of the reporting entity (section 16(1)(b));
3. Describe the risks of modern slavery practices in the operations and supply chains of the reporting entity, and any entities that the reporting entity owns or controls (section 16(1)(c));
4. Describe the actions taken by the reporting entity (and owned or controlled entities) to assess and address those risks, including due diligence and remediation processes (section 16(1)(d));

5. Describe how the reporting entity assesses the effectiveness of such actions (section 16(1)(e));
6. Describe the process of consultation with:
 - a. Any entities that the reporting entity owns or controls;
 - b. In the case of a joint statement, entities giving the statement (section 16(1)(f));
7. Include any other information that the reporting entity considers relevant (section 16(1)(g)); and
8. Provide detail on approval of the statement (section 16(2)).

Where an entity does not comply with the requirement to provide a modern slavery statement, the Minister may request an explanation and/or require remedial action (essentially asking the entity to comply). Where non-compliance continues, the Minister can publish the name of the non-compliant entity and details about its dealings with the entity in relation to explanations and remedial action sought.

The Act contains a reporting requirement, as opposed to, for example prescribing particular action to address modern slavery risk. While the Act sets out certain criteria that need to be included in a modern slavery statement, the guidance is broad, and allows flexibility for entities to take an approach that is appropriate for them. The Government expects that reporting entities' statements will improve in quality and demonstrate progress over time as entities increase their understanding of modern slavery. In terms of investment activity, Government Guidance provides that investment activity would form part of modern slavery reports. This, combined with the fact that the Act specifies mandatory reporting elements, makes the Act relatively unique in an international comparison.

The Government Guidance provides that internally managed investment activity may be considered part of 'operations' and externally managed investment activity part of 'supply chains'. Given the requirement to report on the risks of modern slavery in both operations and supply chains, this distinction is relevant only in providing context for the action to address the risk (see sections 2 and 3 below for further information).

The Act builds on the UK Modern Slavery Act, which was enacted in 2015. However, in the UK there are very few precedents when it comes to reporting on investment activities and portfolios. In addition, the Government Guidance is intentionally broad, to allow entities to adopt the approach most appropriate to them.

Definitions²

Due diligence refers to taking steps within the business to look for the human rights risk (in this case modern slavery risk) to people and taking appropriate steps to manage those risks. Due diligence captures modern slavery risk assessment and associated risk controls.

Risk - the concept of 'risk' refers to the risk to people, rather than risk to the entity itself. In other words, for investors reporting on the risk of modern slavery in portfolios and taking a risk-based approach on engagements, this does not relate to risk to a portfolio or risk to the business, but risk to people. This relates to severity of modern slavery practices, likelihood of them occurring as well as the extent of the risk in terms of the number of people affected and over what time period, etc.

How the reporting entity might be affected by reputational risk or financial risk is a secondary issue that, while important to investors (and will often intersect with risk to people), is not part of the mandatory criteria.

Risk-based approach refers to prioritising the risks for focus by a reporting entity, which again, is based on risks to people. Where there is significant risk to people, investors may wish to consider where they can be most effective, which may include where they have most leverage.

Operations and supply chains: please see 'Describe the structure, operations and supply chains of the reporting entity'.

² These are not legal definitions but definitions for the purpose of this guide

MODERN SLAVERY STATEMENTS – MANDATORY REQUIREMENTS

The Act specifies that modern slavery statements must include certain information. Each mandatory reporting requirement is set out below, with a summary of the Government Guidance, generally followed by some practical observations and a hypothetical example. While each mandatory requirement is separated below, in practice they will be interlinked and each element of an entity's modern slavery statement can build on the previous. Therefore, it may not be necessary for modern slavery statements to adopt the same format as this guide (i.e. separating each reporting requirement). Rather, information may be better presented as a whole. In any event, a modern slavery statement should reflect each entity's own operations and supply chains, and entities should cross-check that their modern slavery statements contain each of the mandatory elements, seeking appropriate legal advice.

1. IDENTIFY THE ENTITY THAT IS REPORTING

Government Guidance

Clearly identify the reporting entity covered by the modern slavery statement. This might include the name of the entity, logos, and logos of any relevant brands or divisions. It might also include the registered address, where the entity is incorporated and an Australian Company Number.

Practical Tips

This is a straightforward requirement, and it is reasonable to suggest that entities would include reporting entities in their modern slavery statements in a similar way to how they are set out in annual reports, websites or other public documents. Consider whether any subsidiaries meet the reporting threshold, (or, separately, the lower threshold set out in the NSW Act) and whether it is appropriate and efficient to prepare a joint modern slavery statement (see also section 6 on joint statements). Government Guidance indicates that reporting entities should also describe how risks of modern slavery practices may be present in the operations and supply chains of entities that are controlled by a reporting entity.

Hypothetical Example

This modern slavery statement is prepared and issued by Huge and Sustainable Returns Super Limited as Trustee of Huge and Sustainable Returns Super. This modern slavery statement also includes reporting from Huge and Sustainable Returns Management Limited, as administrator of Huge and Sustainable Returns Super which is also a reporting entity. Huge and Sustainable Returns Super Limited and Huge and Sustainable Returns Management Limited are referred to throughout the document as 'HSR Super' or the 'Fund', 'We', 'us' or 'Our'.

(See also section 2 in relation to how subsidiaries that do not meet the reporting threshold might be included.)

2. DESCRIBE THE STRUCTURE, OPERATIONS AND SUPPLY CHAINS OF THE REPORTING ENTITY

Government Guidance

The Government Guidance asks entities to describe three aspects, being structure, operations and supply chains. The table below provides a summary.

STRUCTURE, OPERATIONS AND SUPPLY CHAINS	
Structure	▪ The general structure of the entity (e.g. is it a public company, partnership or trust). If the entity is part of a larger group, explain the general structure of the overall group (both upstream and downstream from the entity). ▪ Explain whether the entity owns or controls other entities. If so, explain what the subsidiaries do and where they are located. ▪ Identify any trading names or brand names associated with the entity and child entities. ▪ Provide the entity's Australian Company Number, registered office or other public identifying information.
Operations	▪ Explain the nature and types of activities undertaken by the entity and any owned or controlled entities. ▪ If the entity's activities involve investments, explain the type and nature of the entity's investments. ▪ Identify the countries or regions where the entity's operations (including investments) are located or take place. ▪ Provide facts and figures about the entity's operations, such as the total number of employees. In the context of investments, this could also include total funds under management, asset classes, sectors and number of beneficiaries. ▪ Explain in general terms the type of investment activity the entity undertakes.
Supply Chains	▪ Identify the countries or regions where the entity's suppliers are located. ▪ Explain in general terms the type of arrangements the entity has with its suppliers and the way they are structured (e.g. are they short term and changeable or stable longer term). ▪ Explain the main types of goods and services procured by the reporting entity. ▪ To the extent possible, identify the source countries for these goods and services. ▪ Link to any disclosures by the entity about the identity of their suppliers (such as a public supplier list).

 Practical Tips**Structure and Operations**

The information suggested for disclosure as part of the first two elements in the table above, ('Structure' and 'Operations') might be already available and disclosed. For example, if an investor prepares an Annual Report, it is likely that the general structure of the group, brand names and trading names are included. It may also be that the nature and type of the entity's operations (including investment activity) is broadly described in Annual Reports, investment sections of Product Disclosure Statements, website or other public documents. While modern slavery statements will need to stand alone (given the requirement to store in a separate public database), cross references to other publicly available information may be appropriate.

Supply chains would include goods and services generally supplied to businesses, including to support operations. Supply teams or accounts payable would usually be able to provide a starting point. Suppliers may include outsourced suppliers (such as custodians, investment managers, investment advisers and transition managers), other major providers (such as brokers, clearers, research providers) and other suppliers (such as professional services firms, usual office suppliers for example premises, cleaning, catering).

It is useful to remember that the mandatory element is to 'describe the structure, operations and supply chains', and a description can take many forms. Such a description can be relatively high level. It will however be important to demonstrate improvement over time in both understanding the entity's operations and supply chain, and in the corresponding disclosure. The Government Guidance notes that the Act does not set a minimum requirement for how far down the supply chain reporting should cover, and suggests that risks anywhere in operations and supply chains should be considered. In the context of investments, entities are encouraged to look to the substance of their investments and investment arrangements (including relationships with fund managers) in assessing the risk of modern slavery to people, with a focus on the areas of greatest risk, regardless of whether the risk is within operations or supply chains.

Given the potential magnitude of this exercise, prioritisation is likely to be necessary to ensure the task is effective and manageable. The Government Guidance refers to principle 17 of the UN Guiding Principles on Business and Human Rights (Guiding Principles) which suggests focusing on the general areas where modern slavery risks are likely to be most significant. Guiding Principle 24 also suggests focus on the most severe risks. This means those that would cause the greatest harm to people, the greatest impact or where the risks are large scale (with a significant number of people affected).

Investment Activity

The Act does not define 'operations' however the Government Guidance outlines that investment activity should be included in modern slavery reporting. 'Operations' refer to activities undertaken by the entity to pursue its business objectives and strategy in Australia or overseas, which includes 'financial investments'. This is highlighted in the Government Guidance's section '*Key terms explained: what do 'structure', 'operations' and 'supply chains' mean*' (page 33), which lists a number of examples of definitions of 'operations'. Importantly, each individual investment is not expected to be disclosed, rather disclosure could be on a thematic level (such as by asset class, sector and/or geography or industry).

The Government Guidance indicates that it is reasonable to consider that internally managed portfolios and assets may form part of a reporting entity's 'operations' and that externally managed portfolios and assets may be considered part of a reporting entity's supply chain. For example, an asset manager that is managing a portfolio for an asset owner may be considered a service provider to the asset owner and therefore a tier one 'supplier'.

However, the assets themselves may, in some circumstances, be better considered to be part of the asset owner's 'operations'. As set out above, entities are encouraged to look to the substance of their investments and investment arrangements.

Investment organisations can differ widely in terms of size, coverage, types of financial instruments, passive investments versus active investments, which may be poorly understood by readers of modern slavery statements. For instance, the use of external managers, particularly in foreign jurisdictions with a higher risk

might have an impact on the risk assessment and actions taken to address slavery in the portfolio. Also, explaining (at a thematic level) the type of asset classes and sectors of the economy invested in, the size of the holdings and the nature of those holdings (e.g. majority / minority ownership and typical length of holdings) can add valuable context in considering the action available to address risk and also provides context for the rest of the modern slavery statement.

Reporting entities, such as an asset owner, may ask a fund manager of an externally managed portfolio to report on modern slavery risks both as a supplier themselves and also in relation to the assets being managed.

Given the need to report on the risks of modern slavery in both operations and supply chains and the Government Guidance to assess risk deep into supply chains, the distinction between operations and supply chains is generally relevant only in providing context for the action to address the risk. The Government Guidance also provides that prioritisation is useful and responses will be dependent on the severity of risk and the relationship of the reporting entity to the risk.

As with other reporting entities, investors should also report on other parts of their supply chains, such as procurement.



Hypothetical Example

HSR Super's supply chains include those related to corporate and operational procurement, such as marketing (branded and unbranded goods not for resale), cleaning, travel, catering and information technology.

Given our purpose, we have a large investment portfolio for the benefit of our members. Our investment portfolio spans Australian and international equity markets, direct property, infrastructure and private equity investments. We invest in more than 30 countries. We have investments across a number of sectors including energy, IT, material, financial services property, healthcare and telecommunications. Further information on our approach to investing is set out in our Annual Report and Product Disclosure Statement. We have mandates with external investment managers to manage xx% of our investment activity.

We have identified areas of greatest risk in our operations and supply chains. Research suggests that high risk areas for financial services businesses' supply chains include IT procurement, logistics and property, and building services such as facilities management, utilities, cleaning, waste management and security and print and promotional goods. Accordingly, we have focused on these areas. We have also sought to understand geographic and sector risk in relation to our investments. In the first instance we have done this by comparing our investments with geographies or sectors known to be of greater risk. We have focused on our investments in Asia, as research shows that the Asia-Pacific region has the largest concentration of people in slavery-like conditions in the world. Where we have investments in that region, we believe the risk to people may be greater. We have also asked our investment managers to report back to us with the relevant information on our externally managed investments. We will report on our progress annually.

3. DESCRIBE THE RISKS OF MODERN SLAVERY PRACTICES IN THE OPERATIONS AND SUPPLY CHAINS OF THE REPORTING ENTITY, AND ANY ENTITIES THAT THE REPORTING ENTITY OWNS OR CONTROLS

Government Guidance

Risk to people

The Government Guidance focuses on risk as it relates to people, rather than risks to the entity (such as reputational or financial damage). Risk to the business, in other words, how the reporting entity might be affected by reputational risk or financial risk, is a secondary issue that is not part of the mandatory criteria. Nonetheless, the risks often intersect and associated reputational and financial risk is an important consideration for investors. Risk to people incorporates concepts of severity of modern slavery practices, likelihood of occurrence, as well as the extent of the effect, in terms of the number of people affected and over what time period.

The potential for the entity to cause, contribute to, or be directly linked to modern slavery through its operations and supply chains is highlighted in the Government Guidance (which makes reference to the Guiding Principles). A brief summary is set out below:

- **Cause** – a risk that the entity's operations directly result in modern slavery practices.
- **Contribute** – a risk that the entity's operations and/or actions in the supply chains may contribute to modern slavery, including acts or omissions that facilitate or incentivise modern slavery.
- **Directly linked** – risks that the entity's operations, products or services (including financial products and services) may be connected to modern slavery through the activities of another entity with which the entity has a business relationship.

Scoping to identify general areas of modern slavery risk

The Government Guidance asks reporting entities to identify the general types of modern slavery risks that may be present in their operations or supply chains. This provision requires only that an entity identify how risks of modern slavery may be present. Most likely, every entity will have modern slavery risks in its operations and supply chains. Government Guidance suggests that reporting on individual or specific risks is not required. Nonetheless, it may be appropriate to include more specific information on a voluntary basis in some circumstances (e.g. a case study of action taken may add value).

The Government Guidance outlines that a scoping exercise will assist in identifying and describing the risks of modern slavery. Scoping involves three steps:

1. Identify the broad operations and overall supply chain structure of the reporting entity at a thematic level. Investment and lending portfolios should be included. This will identify the general sectors and industries, types of products and services, countries and entities that are involved in operations and supply chains. To the extent possible, this should consider the entire scope of the supply chain.
2. Assess which of the sectors, types of products and services, categories of investments, countries and entities identified may involve high modern slavery risks. Some modern slavery risk indicators are set out in the Government Guidance, which is extracted at **attachment 1**.
3. Identify parts of the entity's operations (including investment portfolios) or supply chains over which there is limited visibility and consider whether they may involve modern slavery risks.

While the Act does not set a minimum requirement for how far down the supply chain reporting should cover, the Government Guidance suggests that risks anywhere in operations and supply chains should be considered, including those deep in supply chains.

 Practical Tips

The actions outlined above (in particular, Step 1 of the scoping exercise) are likely to overlap with the requirements described in Section 2 (the description of the entity's structure, operations, including investments, and supply chains). Therefore, this information could already be publicly available, for example in an Annual Report, website or similar document. Nonetheless, information should be reviewed to assess how it is fit for the modern slavery statement. Each entity should consider what is an appropriate level of detail, taking into account its particular circumstances. For example, investors with a large number of holdings may wish to assess and disclose on a thematic level; those with more concentrated holdings may have the ability to provide a greater level of detail. As mentioned above, investors are encouraged to look to the substance of their investments and investment arrangements to assess the risk of modern slavery to people, with a focus on the areas of greatest risk, regardless of whether the risk is within operations or supply chains. However, prioritisation is also likely to be necessary. Focusing on sectors and geographic areas where risks to people are likely to be most significant will make the task more manageable and effective.

Once operations and supply chains are identified, assess which of the products and services, geographic areas or countries and entities identified may involve high modern slavery risks. This can be done by comparing operations and supply chains to the risk indicators for modern slavery. Where relevant, investors might also wish to highlight that as investee companies' reporting improves this may promote further insight over time.

ACSI's research report, '[Modern slavery risks, rights and responsibilities](#)' indicates that high risk areas for financial services supply chains include IT procurement, logistics and property and building services, such as facilities management, utilities, cleaning, waste management and security, and print and promotional goods. High risk geographies include conflict-affected zones, and countries where there is a weak rule of law or high

corruption. Countries where the workforce includes a large number of migrant workers, and where third-party employment agencies are widely used, also present a higher risk of forced labour. Other country factors that indicate risk include the existence of Economic Processing Zones, which are often not bound by national labour laws and therefore cannot be inspected by labour officials; and areas with large agricultural sectors, which are often found in isolated rural areas that are difficult to access and inspect.

RIAA's report '[Investor toolkit – human rights with focus on supply chains](#)' also highlights key risk areas and also sheds light on how investors can spot red flags by looking at industry structures, such as oligopolistic industries where the main players compete on price and have transactional relationships with suppliers, industries with high pressure or shorter lead times, supply chains where workers are often recruited by an agent and more. It also highlights some key underlying issues such as living wages, freedom of association, grievance mechanisms, use of labour hire and includes examples of leading practice such as collaborating with peers, unions, NGOs and other stakeholders. It specifies which geographical regions are at high risk of slavery. It also includes practical engagement points for investors to use to encourage companies to adopt best practice on human rights risk management.

It is reasonable to consider that investments will have similar risk factors to supply chains, although it may be important to communicate that the action available to investors may differ from action available in respect of suppliers (see section 4 below for further information in relation to describing the action taken to address and assess modern slavery risk).

The [Global Slavery Index](#) provides a list of higher risk jurisdictions that may be helpful.

Other risk indicators are set out in the Government Guidance ('risk indicators for modern slavery' extracted at **Attachment 1**).

Examples of that may be helpful to disclose in response to this requirement are:

- **Process:** Processes for ESG integration and how modern slavery risk analysis is covered within those, e.g. as part of human rights risk analysis.
- **Methodology:** Criteria, risk factors and tools used for risk assessment, such as analysis by sector, by geography and what information sources have been used for such analysis (for example, proprietary research, external research providers, engagements, indices and more). This could also include any key assumptions that have been made.
- **Output:** A high level description of areas of the portfolio subject to high risk (this is an important step for requirement four, see below).



Hypothetical Example

At HSR Super, we take the risk of modern slavery seriously and we do not want to be complicit in perpetuating modern slavery. Nonetheless, the reality is that forced labour, and related practices, likely exist in the operations or supply chains of most businesses and in every region of the world.

Accordingly, we have mapped our supply chains and investment portfolio to establish a baseline for identifying risk. We have xx suppliers across xx countries. We have xx investments, across xx countries and xx sectors. In some instances, we hold as little/great as xx% of the investment. Across emerging markets and high-risk sectors sectors we recognise that the risk of modern slavery is generally greater. As set out above, we have identified that our investments in Asia have greater modern slavery risk, and we are prioritising our action accordingly. We will report back next year on our progress. As our investee companies' reporting improves over time, we expect to have further insight on risk identification.

Entities may have existing processes to draw upon and update, for example: Human rights risk analysis forms part of our process for integration of environment, social and governance factors in our investment process. Our risk processes include analysis by sector and geography, using a wide variety of resources, such as external research and indices. We are planning further work to identify whether our assessment processes can be further enhanced to assess modern slavery risk more specifically, and how we can extend these processes into our supply chain.

Entities that have progressed their mapping and identified some areas of risk may consider reporting along the lines below. As with all businesses, we recognise that there will be risk of modern slavery in our operations and supply chain, for example:

- Product and services risks in our supply chain for cleaning, travel, catering and information technology;
- Sector and industry risks with investments in construction and health services;
- Product and services risks with our investments in the apparel industry; and
- Geographic risks, in particular with our investments in emerging markets.

We are committed to taking action to address modern slavery risk. The action we are taking is set out below.

4. DESCRIBE THE ACTIONS TAKEN BY THE REPORTING ENTITY (AND OWNED OR CONTROLLED ENTITIES) TO ASSESS AND ADDRESS THOSE RISKS, INCLUDING DUE DILIGENCE AND REMEDIATION PROCESSES

Government Guidance

The Government Guidance recognises that many entities have complex operations and supply chains, meaning it would be impossible to immediately assess and act to respond to modern slavery risks in every part of an entity's operations and supply chains.

The Guiding Principles suggest that organisations start by focusing on assessing general areas of operations and supply chains where modern slavery risks are likely to be most significant. For example, high risk goods or services, sectors or certain geographic locations and high-risk sectors (as outlined in section 3 of this guide).

Consider prioritising which risks to respond to first. The Government Guidance suggests a focus on the most severe risks that would cause the greatest harm to people, including those risks with the greatest impact (severity) or scale (number of people involved) or where a delay in response would mean that remediation is not possible.

The Government Guidance acknowledges that supply chains are long and complex and that the complex and changeable structure of investment portfolios means that investors may have limited relationships with their investees. The Government Guidance suggests the following actions could be considered to assess and address risk. While not all of these actions will be feasible for all entities, consider which may be appropriate. For example:

- Review existing information about the entity's operations and supply chains, such as Human Rights Impact Assessments, Environmental and Social Impact Assessments and Work Health and Safety Assessments;
- Develop tools and policies to monitor high risk suppliers and mitigate associated risks;
- Bring together key departments from the entity to assess risk such as Procurement, Sourcing, Risk, Finance, Human Resources, and Legal;
- Develop a specific action plan with a reasonable timeframe;
- Assign responsibility for assessing and addressing risk and brief the board on the requirements of the Act and the action being taken;
- Make sure there is a mechanism for people to safely report modern slavery risks (employee hotline or similar);
- Build partnerships with business peers, civil society groups and industry bodies to improve understanding of modern slavery risks;
- Make the entity's policies on modern slavery publicly available;
- Review and improve existing policies and procedures, including supplier codes of conduct, grievance mechanisms and sourcing policies. Clearly communicate expectations to suppliers by ensuring modern slavery risk is addressed in contracts or pre-qualification mechanisms;
- Improve staff and management awareness of modern slavery risks;
- Review and improve existing policies and procedures, including supplier codes of conduct, grievance mechanisms and sourcing policies. Clearly communicate expectations to suppliers by ensuring modern slavery risk is addressed in contracts or pre-qualification mechanisms;
- Address practices that may be present in the entity's operations and supply chains that may lead to modern slavery, such as charging recruitment fees for workers, tying workers' accommodation to their employment status, sham contracting, unmanageable lead times and purchasing practices, unlawful wage deductions or underpayment;
- Update project and contract management systems and plans to address modern slavery, including templates, procurement strategies and other documents; and
- Engage with investees directly or collectively to encourage modern slavery risks to be addressed.

 Practical Tips

The requirement to report on action taken is closely related to the identification of risk (outlined at Section 3 of this guide). This section of the entity's modern slavery statement could therefore make the link between the risk assessment and how the actions taken to assess and address risk are prioritised.

At a framework level, consider referring to the entity's policy measures that are in place. These could include a specific human rights policy, risk assessment procedures, employee and/or supplier codes of conduct, relevant provisions in standard supply contracts. It could also include reference to employee-training and employee-reporting mechanisms (such as a whistle blower phone line).

The Guiding Principles also highlight leverage as a key role for investors.

Leverage for investors typically means engagement, which in turn may help investors to make better informed investment decisions. These engagements can relate to direct engagements with investees, and collaborative engagements (with other investors or other stakeholders) with investees.

Actions can also include other risk mitigation actions, such as advocacy, joining relevant risk control frameworks that focus on a particular sector or a country or pushing for more disclosure, which may go beyond legal compliance. In other words, there are many ways that investors can address risk and each investor may wish to consider what is feasible and appropriate for them.

Many investors have portfolios with a large number of portfolio constituents, sometimes spread across various asset classes. A 'risk-based approach' (based on risks to people, Guiding Principle 17), could be the basis for prioritisation of responses, including engagement activities and active management broadly.

In terms of a risk-based approach, the extent of due diligence could be guided by the level of risk and level of influence (which in turn depends on ownership structure, asset class, size of holding, corporate access and more). As an example, this is similar to how some retailers have risk-segmented their suppliers, based on the level of risk and level of influence.

Investors will naturally have differing exposures via different asset classes, and differing levels of control across these classes. Investors are likely to have more time and more transparency relating to their larger and more direct holdings, as well as more leverage. As such, investors might consider addressing this in their modern slavery statement by discussing their differing levels of control or leverage by asset class, their size or investment type.

While the key focus of the Act for investors is about due diligence and, where appropriate, engagement of investee companies, investors may also want to cover due diligence on the source of investments in this section. Disclosure can be at a process level, rather than specific detail – of course it remains appropriate that each investor's confidential information is protected.

Examples of what could be disclosed are:

- Processes for ESG engagements, for instance high-level ESG engagement plans, ESG engagement objectives and ESG engagement policies and how they relate to modern slavery in particular.
- Links between risk assessment (as outlined in section 3 above) and prioritisation of engagement activities and engagement objectives.
- Actual engagement activities undertaken (individual and/or collaborative ones). These could include:
 - o Industry-level engagements.
 - o Company-specific engagements including objectives (such as raising awareness, influencing corporate behaviour or other).
 - o Case studies or high-level statistics (it is up to the reporting entity to decide how much detail goes into this reporting).
- Other remediation strategies or risk control frameworks, such as screens or partnerships with other stakeholders that the investor might have.

Any limitations to action should also be clearly explained – for example, some investors with passive holdings or investors with small holdings may not have significant influence.

This section could also reference ongoing action. For example, ACSI members could reference the work done by ACSI to engage with investees on their behalf.



Hypothetical Example

An external facing policy statement is recognised in the Guiding Principles as best practice. We have developed our approach to human rights (including our commitments and governance) into a policy statement, which can be found at *<include relevant link>*.

The following aspects of our governance framework are relevant to our commitment to human rights:

- Our Code of Conduct requires each person working for the Fund to respect and work to uphold human rights.
- Our supplier contracts require suppliers to respect and work to uphold human rights, in relation to child labour, inhumane treatment of employees, forced or compulsory labour, freedom of association, living wage, workplace health and safety and community interaction.
- Our employee training covers the identification of human rights-related risk and how employees can report suspected breaches of our requirements.
- Employees are encouraged to use our employee hotline, which allows anonymous disclosure.
- Reports from our employee hotline are collated and reported to the board.
- In terms of our investment activity, our existing due diligence and risk management policies require thorough assessment prior to investing. We will review our existing processes to ensure material modern slavery risk is incorporated into our assessment.

We are signatories to the Australian Asset Owner Stewardship Code. We disclose against the provisions of the Code, which includes providing an overview of how we discharge our stewardship responsibilities, links to our policies, and our approach to engagement with our investee companies.

Our investment portfolio includes investments in equities across the world. In respect of Australian equities, we are members of the Australian Council of Superannuation Investors (ACSI). ACSI undertakes a year-round program of research, engagement, advocacy and voting advice in relation to companies in the ASX300. ACSI seeks to influence companies through constructive engagement with their boards about material ESG issues, with the aim of promoting long term shareholder value and minimising risk. ACSI encourages listed companies to consider their practices as they relate to human rights, including actively engaging with employees, customers, supply chains and other relevant stakeholders to understand and assess human-rights impacts. ACSI's engagement program includes human rights in supply chains and sustainability reporting disclosure.

We have identified that our investments in Asia have a greater risk of modern slavery. Accordingly, we have prioritised our Asian investments for further action. In particular, we have prioritised the relevant contractual arrangements for review to identify areas that may require revision. We have also identified a program of engagement with investees, so we can further understand the level of risk, and identify any action required.

Investors with international engagement agreements may wish to describe them here.

We will continue to assess the effectiveness of our actions and from there, identify future actions for prioritisation. Further information on how we assess the effectiveness of our actions is set out below. We intend to focus on embedding our standards consistently across our operations and supply chains, as well as improving our ability to identify, manage, address and remediate modern slavery risks and impacts.

5. DESCRIBE HOW THE REPORTING ENTITY ASSESSES THE EFFECTIVENESS OF SUCH ACTIONS

Government Guidance

The Government Guidance outlines that entities should explain what they are doing to check whether their actions are effective to assess and address modern slavery risk. The Government Guidance highlights that the Act requires reporting entities to explain how the effectiveness of an entity's actions are assessed; not to determine whether an entity's action are effective. This is an important consideration for all reporting entities, including investors.

The Government Guidance acknowledges that understanding and assessing effectiveness can be difficult, and offers a range of ways to do this including:

- Implementing a process to regularly review actions taken.
- Regularly reviewing risk management processes to ensure they are up to date – for example does the entity's risk management processes incorporate modern slavery risk and identify high risk geographies and/or industries for investment?
- Incorporating relevant metrics and checks in the internal audit processes, for example does internal audit review supplier due diligence processes?
- Reviewing relevant reports from reporting hotlines.
- Working with suppliers to check how they are progressing action put in place to address modern slavery risks.
- Reviewing relevant staff training.

The Government Guidance also asks entities to consider whether it is appropriate to set key performance indicators and gives some examples of key performance indicators that might be considered.

Practical Tips

This provision asks entities to explain how they assess the effectiveness of their actions, rather than to disclose whether or not action is effective. This part of the modern slavery report will again build directly from the previous part (being a description of action taken by the reporting entity to address the risk of modern slavery).

Entities might wish to consider disclosing how they assess:

- Outcomes from ESG management in general and/or how these relate to engagements on modern slavery, including case studies on engagement.
- Progress on objectives set out in the ESG engagement plan.
- Activities to raise awareness such as training of staff, stakeholder awareness.
- Relevant changes to portfolio risk.

Hypothetical Example

At HSR Super, we recognise that it will take time, and efforts globally to address modern slavery. In practice, this means that change will be incremental. However collectively, incremental change will drive global awareness and improvement. That's one of the reasons why we're committed to taking the action set out in this report, and also to assessing the effectiveness of our actions.

We regularly assess the effectiveness of our engagement activities and, in accordance with our escalation policy consider whether escalation is appropriate.

All employees receive Code of Conduct training upon appointment and we ask all continuing employees to review our Code of Conduct regularly. We monitor compliance with this training requirement. We also encourage staff to report any concerns through our employee hotline. Reports from the employee hotline are aggregated and reported to the board.

Our internal audit team regularly assesses compliance with all our policies and procedures, including checking compliance with our supply processes. Internal audit reports directly to the risk committee.

Our current activity is focused on assessing modern slavery risk and our frameworks to address risk. From there, we intend to identify further relevant actions which we anticipate may include incorporating relevant indicators in KPIs, partnering with NGOs and ensuring all our supply contracts include appropriate modern slavery clauses.

6. DESCRIBE THE PROCESS OF CONSULTATION WITH:

A. ANY ENTITIES THAT THE REPORTING ENTITY OWNS OR CONTROLS;

B. IN THE CASE OF A JOINT STATEMENT, ENTITIES GIVING THE STATEMENT.

This section should describe the entities covered by the statement (for example relevant subsidiaries that meet the reporting threshold). Where owned or controlled entities operate separately across different sectors, more engagement across entities might be required, in particular where entities are not wholly owned.

Where entities are wholly owned, and run largely as a corporate group with common practices and reporting lines, consultation may not need to be so detailed. It will however be important to consult the relevant people across the organisation to ensure information is complete and correct. The boards and company secretary of relevant subsidiaries should also be aware of preparation of the modern slavery statement and have an opportunity to participate in the process.



Hypothetical Example

This modern slavery statement is made by HSR Super, and its subsidiaries, (include names of subsidiaries if relevant). In preparing this modern slavery statement, relevant directors and officers of all the entities making the statement were consulted and provided with an opportunity to review the statement prior to its approval.

7. ANY OTHER INFORMATION THAT THE REPORTING ENTITY CONSIDERS RELEVANT



Government Guidance

The Government Guidance outlines that there is no need to include information under this provision if the entity considers that its responses to the other six criteria are sufficient. The Government Guidance suggests that entities may wish to consider including the following:

- Advocacy activity, including supporting the development of legislation, participation in external forums to improve awareness;
- Partnerships with civil society; and
- Contribution to addressing the root causes or structural factors that contribute to modern slavery such as poverty, forced migration, poor education.



Practical Tips

While there may be no need to include additional information, if entities wish to do so, they should. Consider whether any additional information should go in a separate section, or whether it is best integrated through the statement where appropriate. For example, advocacy activity may be better placed in the information addressing the entity's action taken in respect of modern slavery risk.

8. DETAIL ON APPROVAL ON THE STATEMENT

Government Guidance

The Act provides for two specific requirements for approval, being:

- The statement must be approved by the principal governing body of the reporting entity; and
- The statement must be signed by a responsible member of the reporting entity (in most cases, this will be a member of the principal governing body).

Principal governing body means the body or group of members that is responsible for the governance of the entity.

The Government Guidance notes that generally for a company, the principal governing body is the board, and a director needs to sign the statement. For a trust, the principal governing body may be the board of trustees, in which case one of the trustees on the board should sign the statement.

Accordingly, for many entities, the board will need to approve the statement and one director will need to sign the statement.

For joint statements, table three in chapter 7 of the Government Guidance provides information on approval requirements and processes.

USEFUL REFERENCES

- **The Australian Government's Website:**
<https://www.homeaffairs.gov.au/about-us/our-portfolios/criminal-justice/people-smuggling-human-trafficking/modern-slavery>

This website includes information from the Modern Slavery Business Engagement Unit, how to contact the Unit, along with the Government Guidance for reporting entities.

- **RIAA's Investor toolkit – human rights with focus on supply chains:**
<https://www.responsibleinvestment.org/wp-content/uploads/2018/08/HRWG-Investor-Tool-Kit.pdf>

This tool assists investors in identifying human rights risk, including modern slavery and provides practical engagement ideas for investors. It also contains a list of other useful resources and tools available to investors.

- **Global Slavery Index:**
<https://www.globalslaveryindex.org/>

This tool provides background information about the global issue of modern slavery and can also assist investors in risk assessing by geography and product.

- **Guiding Principles on Business and Human Rights:**
<https://www.business-humanrights.org/en/un-guiding-principles>

These are a set of guidelines for States and companies to prevent, address and remedy human rights abuses committed in business operations. The guidelines are directly quoted in the draft guidance for reporting entities.

- **ACSI research Modern Slavery Risks Rights and Responsibilities:**
<https://www.acsi.org.au/images/stories/ACSIDocuments/generalresearchpublic/ACSI-Modern-Slavery-Report.Feb19.pdf>

This report aims to increase the Australian business community's understanding of modern slavery risks in their operations and supply chains, and to help prepare businesses to meet new regulatory requirements for transparent public disclosure.

- **Finance Against Slavery and Trafficking (FAST)**
<https://www.fastinitiative.org>

Unlocking Potential: A Blueprint for Mobilizing Finance Against Slavery and Trafficking is the final report of the Liechtenstein Initiative for a Financial Sector Commission on Modern Slavery and Human Trafficking, which has now formed Finance Against Slavery and Trafficking (FAST). The Blueprint provides a shared collective-action framework that different financial sector actors can implement in their own ways and at their own speeds. The FAST Goals provides a framework for the whole financial sector and professional service providers to demonstrate their commitment to accelerating action to end modern slavery and human trafficking. The FAST Implementation Toolkit, comprising practical tools and initiatives, including workflows and diagnostic tools, will help financial sector actors in implementing the Blueprint.

ATTACHMENT ONE:

GOVERNMENT GUIDANCE APPENDIX 1 TABLE SIX: RISK INDICATORS FOR MODERN SLAVERY

This table sets out indicators that can be used to help identify modern slavery risks in the entity's operations and supply chains. This table also sets out direct indicators that may indicate a person is in a situation of modern slavery.

TYPE OF RISK	INDICATORS
Sector and industry risks <i>Certain sectors and industries may have high modern slavery risks because of their characteristics, products and processes</i>	- Use of unskilled, temporary or seasonal labour. - Use of short-term contracts and outsourcing. - Use of foreign workers or temporary or unskilled labour to carry out functions which are not immediately visible because the work is undertaken at night time or in remote locations, such as security or cleaning. - Use of child labour in hazardous conditions, such as underground, with dangerous machinery or tools, in unhealthy environments (including where they are exposed to physical or sexual abuse), or for long hours. - Recruitment strategies by suppliers, their agents or labour hire agencies target specific individuals and groups from marginalised or disadvantaged communities. - The sector involves direct engagement with children, including through orphanage tourism and other forms of 'voluntourism' (including through companies' social investment and corporate social responsibility programs).
Product and services risks <i>Certain products and services may have high modern slavery risks because of the way they are produced, provided or used</i>	- Cost requirements or delivery timeframes might require suppliers to engage in excessive working hours, make cost savings on labour hire or rapidly increase workforce size. - The development of the product or delivery of the services has been reported as involving labour exploitation by international organisations or NGOs. - Children are often used in the development of the product or delivery of the service, such as carpet weaving. - The product or components of the product are made in countries where there is a high risk of labour exploitation reported by international organisations or NGOs. - The services are provided in countries where there is a high risk of labour exploitation reported by international organisations or NGOs. - The product is made from materials or using services reported to involve a high risk of labour exploitation by international organisations or NGOs.

Geographic risks <i>Some countries may have higher risks of modern slavery, including due to poor governance, weak rule of law, conflict, migration flows and socio-economic factors like poverty. A number of organisations issue public reports evaluating governance, corruption and rule of law in countries around the world. You can use these reports to identify higher risk countries.</i>	▪ The country has not ratified international conventions relevant to modern slavery, such as: the International Convention to Suppress the Slave Trade and Slavery (1926); ILO Convention (No. 29) concerning Forced or Compulsory Labour (1930); the Supplementary Convention on the Abolition of Slavery, the Slave Trade and Practices similar to Slavery (1956); the Protocol to Suppress, Prevent and Punish Trafficking in Persons, Especially Women and Children (2000); ILO Convention (No. 182) concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour (1999). ▪ The country is reported to have a high prevalence of modern slavery or labour rights violations, other human rights violations and/or child labour by international organisations or NGOs. ▪ The country has inadequate protections for workers, including no or weak capacity to effectively monitor workplace standards and enforce compliance with national standards. ▪ Law enforcement agencies are reported to be hostile to workers in at risk industries. ▪ The country forces parts of the population to work for development purposes, for example to assist in construction or agriculture. ▪ The country is reported to have weak rule of law by international organisations or NGOs, including due to corruption, conflict and/or political instability. ▪ The country has a high prevalence of people who are vulnerable to exploitation because they are impoverished, displaced or subject to severe discrimination.
Entity risks <i>Some entities may have particular modern slavery risks because they have poor governance structures, a record of treating workers poorly or a track record of human rights violations.</i>	▪ Entity has previously been reported as noncompliant with human rights or labour standards, including by media or NGO sources. ▪ Entity's procurement and sourcing processes appear poorly managed or inefficient. ▪ Entity has complex or opaque supply chains. ▪ Workers appear to have little information about workplace entitlements and protections and there is a general lack of information about workplace standards. ▪ Audit results for the entity appear unreliable or conflict with other sources of information about the supplier, such as NGO reports. ▪ Staff recruitment costs by labour hire companies or recruiters are not covered by the company, meaning that recruitment expenses such as travel may be improperly imposed on workers. ▪ Entity provides residential care for children overseas.

Indicators of modern slavery

A combination of these signs may indicate a person is in a situation of modern slavery and that further investigation and assessment is required. You should also consider that some groups may be at higher risk of being impacted by modern slavery, such as women and migrant workers. For example, women can be disproportionately impacted by modern slavery due to structural disadvantages including lack of access to education.

The suspected victim or victims are:

- living at the workplace, or another place owned/controlled by their employer
- underpaid or not paid at all
- required to work excessive hours
- confined or isolated in the workplace or only leave at odd times
- guarded at work or in their accommodation
- isolated in remote locations that are difficult to access and/or restricted from contacting or interacting with people outside the workplace (for example, their phones are confiscated or they are supervised when in public)
- managed by an intermediary or third party who 'holds' or 'invests' their money for them
- subject to different or less favourable working conditions than other workers because of their country of origin, gender or other factors
- unable to terminate their employment at any time
- appear to be servicing a debt to an employer or a third party (such as a recruitment agent)
- appear to be subjected to, or threatened with, violence, emotional, sexual, verbal or physical abuse and/or degrading treatment in connection with their employment
- appear to be subjected to intimidation, such as threats to their family or close relations in connection with their employment
- appear to have false travel or personal documents and/or are not allowed access to these documents because they are being held by an employer or third party
- appear to have been deceived about the conditions of their employment
- are not provided with contracts in a language and format that they can easily understand
- are not informed of, or do not appear able to understand the terms and conditions of their employment
- are not provided with any protective equipment, training or means to refuse to participate in dangerous work practices, or refuse to handle known toxic materials or hazards
- do not have permission to work because they are from another country or appear to be working in breach of visa requirements.

