



House of Commons Public Bill Committee,  
Scrutiny Unit,  
7 Millbank,  
London,  
SW1P 3JA.

8 September 2014

Dear Sirs,

***Modern Slavery Bill – call for written evidence***

We appreciate the opportunity to respond to the House of Commons Public Bill Committee on the Modern Slavery Bill and contribute to the debate on this important issue.

PwC is a network of leading professional services firm with offices in 157 countries and more than 184,000 people. We help organisations and individuals create the value they're looking for, by delivering quality in assurance, tax and advisory services.

In the UK, we have experts who advise our clients on both sustainability and corporate reporting issues. Therefore, this response is written from our perspective of an advisor to businesses large and small, as well as our own experience.

We support the tenets of the Modern Slavery Bill and welcome legislation where it can support the UK's fight against modern slavery. We believe that many companies have not yet considered how modern slavery could affect them directly or indirectly through their supply chains. Guidance is needed to address this lack of awareness and understanding and this should be the focus of government attention. We do have some concerns over using legislative reporting requirements to this end, the reasons for which are outlined in our response.

Our detailed comments are included in the submission enclosed. We would be happy to talk to the Committee formally or informally about any of the issues raised in our submission.

Please contact me on 0207 213 4378 or [geoff.lane@uk.pwc.com](mailto:geoff.lane@uk.pwc.com) if you would like to discuss this further.

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'Geoff Lane', written in a cursive style.

Geoff Lane  
for and on behalf of PricewaterhouseCoopers LLP

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## Response to call for written evidence on the Modern Slavery Bill

### 1. Executive summary

- 1.1 We support the tenets of the Modern Slavery Bill and welcome legislation where it can support the UK's fight against modern slavery. We believe it is the responsibility of all stakeholders, including companies, to address this issue and that modern slavery can have significant impacts on companies.
- 1.2 In our experience, understanding of the issue of modern slavery and its implications for business is generally low and reporting on this issues, and broader human rights more generally, under existing legislation is limited.
- 1.3 We have the following concerns over including 'modern slavery' as a reporting requirement in the Companies Act 2006, as suggested by the Joint Committee:
  - 1.3.1 this could result in business perceiving modern slavery activities as reporting compliance requirements only;
  - 1.3.2 there is not yet evidence that reporting requirements in this area have significantly changed companies' activities and more time is needed to assess their impacts;
  - 1.3.3 it may duplicate existing legislation, as modern slavery is a subset of human rights, and may distract companies from focusing on other human rights risks;
  - 1.3.4 it may not be aligned to the purpose of the annual report and accounts.
- 1.4 We believe that guidance is needed to address a lack of understanding in business and that this should be the focus of government attention;
- 1.5 This guidance should support business to "*do more*", rather than just "*disclose more*". Furthermore, all stakeholders must be encouraged to collaborate in developing solutions which will often require action by many organisations working together.
- 1.6 We think that no one individual on a Board should have sole responsibility for modern slavery activities.
- 1.7 Finally, we believe that there is a lack of understanding in business around human rights more generally and we commit to supporting our clients to better consider these issues.

### 2. Introduction to our response

- 2.1 Tackling modern slavery is the right thing to do and is the responsibility of all stakeholders. We welcome legislation where it can support the UK's fight against modern slavery and we appreciate the opportunity to contribute to the debate on future legislation on this issue.
- 2.2 Modern slavery has a profound impact on the individuals involved. Where it takes place in the UK or as part of a company's global supply chain, we believe it can also have a significant effect on companies. For example, it may impact the resilience or productivity of a supply chain or the reputation of a company.



- 2.3 For these reasons, PwC's own Responsible Purchasing Policy<sup>1</sup> sets strict standards about forced labour in our supply chains.
- 2.4 We believe that companies have a role to play in addressing modern slavery. The geographic reach of their supply chains and the direct and indirect influence they can exert means that many companies are potentially able to make a positive contribution to tackling this issue.
- 2.5 However, in our experience, there is a large gap between the small number of UK companies leading on this issue, and the majority of UK companies. The companies leading in this area understand modern slavery and already have programmes in place to address it, to the extent necessary.
- 2.6 However, there are many companies which have not yet considered how modern slavery could affect them directly, or indirectly through their supply chains – as seen from our research (see para 3.2 below) and anecdotally. It is this lack of awareness and understanding which should be the focus of efforts to address modern slavery in business. The current lack of understanding relates to:
  - 2.6.1 the definition of modern slavery;
  - 2.6.2 the identification of modern slavery risks;
  - 2.6.3 the impacts that modern slavery risks could have on a company;
  - 2.6.4 the approaches that companies could take to manage modern slavery risks;
  - 2.6.5 the appropriate responses if incidents of modern slavery are identified; and
  - 2.6.6 the reporting of the risks, activities and impacts to a range of stakeholders.

### **3. Current status of legislation and companies' response**

- 3.1 Quoted companies have been required, since October 2013, to report, 'to the extent necessary', in their Strategic Report information on human rights<sup>2</sup>. Due to the considerable breadth of human rights issues and the responsibility for companies to consider human rights in all business relationships (including the supply chain)<sup>3</sup>, our expectation is that human rights will feature consistently across a wide range of companies as part of a materiality assessment on what gets reported and the extent of the disclosures made.
- 3.2 Our research has found that nearly a fifth of the FTSE100 companies do not currently mention "human rights" in their Strategic Report. Where this term was mentioned, the majority of disclosures are 'compliance-based' statements and do not disclose information that gives the reader an understanding of the company's human rights risks or approach. We expect that the level of human rights reporting from quoted companies outside the FTSE100 will be less. We believe that a lack of awareness and understanding of human rights and the implications for business has hampered reporting, as has uncertainty over what is appropriate to report.

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<sup>1</sup> [www.pwc.co.uk/en\\_UK/uk/assets/pdf/pwc-uk-responsible-procurement-policy.pdf](http://www.pwc.co.uk/en_UK/uk/assets/pdf/pwc-uk-responsible-procurement-policy.pdf)

<sup>2</sup> [www.legislation.gov.uk/uksi/2013/1970/contents/made](http://www.legislation.gov.uk/uksi/2013/1970/contents/made)

<sup>3</sup> [www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR\\_EN.pdf](http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf)

- 3.3 Although external disclosures are currently limited, our experience is that relevant discussions on human rights are being held internally by a growing number of organisations. These discussions have also resulted in some companies becoming more active in addressing modern slavery (as a result of exploring their human rights approach) as part of the broader consideration of business' role in human rights. We believe more time is required to assess the impact of this regulatory change on awareness, understanding and action given the requirement is less than a year old.
- 3.4 It should also be noted that, as explained in the Government's response to the pre-legislative scrutiny of the draft Bill<sup>4</sup>, the amendments to the EU's Accounting Directive will extend the number of companies required to report on human rights and the scope of the information to be reported. A combination of existing and forthcoming changes to reporting regulations will require time to 'bed down' before it can be determined whether more regulation is required.
- 3.5 The 2010 California Transparency in Supply Chains Act was cited by the Joint Committee as a good example of legislation in this area. This Act has undoubtedly helped more companies focus on the issue of modern slavery. We have noted the following points in its implementation which may be pertinent for any similar UK legislation:
- 3.5.1 over 20% of companies have not yet reported in line with the legislation<sup>5</sup> resulting in questions over enforcement;
  - 3.5.2 companies can fulfil their compliance obligation to report by stating that they are not undertaking the recommended activities. Therefore, some companies have achieved compliance without any additional effort to combat modern slavery;
  - 3.5.3 there has been much discussion regarding where on a company's website it must post its statement. For example, does it need to be on the retail site or corporate site? How many 'clicks' must it be from the front page?; and
  - 3.5.4 there has been confusion over the definition of 'human trafficking' and 'slavery' which has hindered reporting.
- 3.6 As California's Act has only been in place since 2012, it is difficult to understand the extent to which the disclosure requirement has changed companies' activities and positively impacted the issue of modern slavery.
- 3.7 Outside these legislative reporting requirements, company disclosure on human rights is generally very limited. Our work has shown that, apart from a number of large multi-national companies, few companies are disclosing details of their risks, activities or performance in relation to human rights – for example, reporting on how the company is approaching the activities outlined in the UN's Guiding Principles on Business and Human Rights which is affirmed as the appropriate guidance to use as suggested within the FRC Guidance on Strategic Reports (June 2014).
- 3.8 However, in the area of human rights, corporate engagement and collaboration is growing, often achieving prominence on the agendas of leading companies e.g. as evidenced by the inclusion of human rights in the World Business Council for Sustainable Development's 'Action 2020'

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<sup>4</sup> [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/318771/CM8889DraftModernSlaveryBill.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/318771/CM8889DraftModernSlaveryBill.pdf)

<sup>5</sup> [www.knowthechain.org/companies/](http://www.knowthechain.org/companies/)

initiative<sup>6</sup>. We believe much of this activity has happened as some companies have begun to understand the business and social drivers for action, irrespective of regulatory or reporting requirements. Although it is three years since the UN's endorsement of the Guiding Principles on Business and Human Rights, it is only recently that a human rights reporting and assurance framework has been piloted<sup>7</sup>.

- 3.9 Beyond the reporting agenda, Stronger Together<sup>8</sup>, an initiative aiming to eradicate human trafficking and exploitation in the UK supply chains of retailers, is a multi-stakeholder approach to addressing the issue. Increased awareness and understanding of the risks, coupled with collaboration, has driven this initiative without a legislative reporting prompt. The Bangladesh Accord on Fire and Building Safety is another relevant example.

#### 4. Proposed change to the Companies Act 2006

- 4.1 The Joint Committee suggested amending the Companies Act requirement to include 'modern slavery' alongside the requirement to report on environment, employees, social, community and human rights issues<sup>9</sup>. The Joint Committee has suggested that reporting in this way would, "*force companies which have not addressed the issue of modern slavery in supply chains to do so*". We have various concerns over this proposed change to the Companies Act:
- 4.1.1 there is a risk that additional reporting requirements may have a negative impact, if they lead to companies applying a compliance mindset to their response to modern slavery, rather than seeking to understand and address the broader impacts on their company;
  - 4.1.2 it is too early to judge whether the inclusion of human rights reporting requirements in the Companies Act has improved human rights overall. As such, it is unclear whether *reporting* will improve a company's *impacts* in relation to modern slavery. In general, we believe that reporting, if it is carefully applied, can influence behaviours but that this is very sensitive to the type, amount and format of reports;
  - 4.1.3 so far, the human rights reporting in Strategic Reports released since the Companies Act changes in October 2013 have shown that companies are unlikely to include more than a very limited disclosure on the issue of modern slavery. Whilst we recognise that this might prompt internal conversations amongst senior management, we are concerned that such limited reporting alone will not be sufficient to address modern slavery in corporate supply chains;
  - 4.1.4 'human rights' is already included in the Companies Act requirements and, as 'modern slavery' is a subset of human rights, companies should already be considering and, where material, reporting on this;
  - 4.1.5 the explicit mention of a subset of human rights issues i.e. 'modern slavery', introduces a risk that companies focus on this particular issue at the expense of other human rights

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<sup>6</sup> [action2020.org/business-solutions/operationalize-the-un-guiding-principles-on-business-and-human](https://action2020.org/business-solutions/operationalize-the-un-guiding-principles-on-business-and-human)

<sup>7</sup> [www.business-humanrights.org/Documents/RAFI](https://www.business-humanrights.org/Documents/RAFI)

<sup>8</sup> [stronger2gether.org](https://stronger2gether.org)

<sup>9</sup> [www.publications.parliament.uk/pa/jt201314/jtselect/jt slavery/166/166.pdf](https://www.publications.parliament.uk/pa/jt201314/jtselect/jt slavery/166/166.pdf)

issues, even in cases where it is not the most salient risk. Furthermore, if there is explicit mention of 'supply chains' this may focus reporting on this area of the business. It is important that any assessment of human rights impacts appropriately considers employees, communities, customers and other stakeholder groups too;

- 4.1.6 the purpose of a company's annual report and accounts (including the Strategic Report) is to share relevant information with shareholders, taking into account the needs of other key stakeholders. We believe that this purpose should not be confused by a perception that annual reports and accounts are being used as tool by Government to change corporate behaviours. If the Bill does require companies to report on modern slavery, this requirement should only be to the extent necessary to assist the reader and should not be more prescriptive. If the requirement to report is more extensive, we suggest that this report is made elsewhere.
- 4.2 Any legislation or guidance would benefit from being clear about whether companies are expected to report on modern slavery directly *in their operations, in their supply chains* or *both*. In our experience, some companies have found the associated reporting of 'human rights' difficult as the breadth of issues and the scope across which they need to be considered, is not explicitly mentioned.
- 4.3 Irrespective of legislative reporting requirements, our view is that all companies should carefully assess whether there are significant modern slavery risks in their operations or supply chains. This assessment must be based on a strong, practical understanding of the issue. Where these risks are significant, companies should disclose these to stakeholders.

## **5. Business guidance**

- 5.1 The focus of the Government's action on business and modern slavery should address the existing lack of awareness and understanding. We suggest that additional guidance and support for companies may be an effective way to improve corporate activities in addressing modern slavery.
- 5.2 On the issue of human rights, including modern slavery, the gap between the expectations of society and the role that businesses can play is often large. This is part of a broader breakdown of trust and dialogue between business and stakeholder groups which we believe poses a fundamental risk to companies. Expectations of business from society are set to grow further on this issue, for example as a result of the Home Office's recent public campaign on modern slavery. We believe that corporate legal compliance is not sufficient to narrow this gap. Therefore, guidance needs to support companies to go beyond legal compliance, where appropriate. It needs to clearly set out the business case for addressing modern slavery, and convince companies that this issue may impact on business value and performance.
- 5.3 The guidance should set out practical steps that a company can take. Reporting will be one element of this but it should not be the sole focus – the guidance needs to support business to “*do more*”, rather than just “*disclose more*”. Guidance should include advice to companies on:
  - 5.3.1 identifying and assessing the risks – this may include an explanation of how to identify typically high-risk geographies, products and services;

- 5.3.2 developing risk management frameworks that are both aligned to the over-arching company strategy and can be integrated into the company's day-to-day activities;
- 5.3.3 mapping and engaging with relevant stakeholders;
- 5.3.4 changing the behaviours of employees and those of suppliers;
- 5.3.5 working with suppliers to manage modern slavery risks together;
- 5.3.6 setting targets (including a commitment to continuous improvement) and measuring progress;
- 5.3.7 disclosing risks, approaches and progress through a range of reporting channels;
- 5.3.8 accessing additional support and collaborating with Government, non-governmental organisations, industry associations, suppliers and others; and
- 5.3.9 responding if modern slavery is discovered in their operations or supply chains.
- 5.4 The guidance should set out clear standards which companies can work towards, including a clear minimum standard which all companies should achieve. The standards should be split into various 'levels' so that all companies, regardless of their size, maturity and existing competence in this issue, can understand a clear path for improvement.
- 5.5 The guidance should encourage companies to collaborate on this issue, and we encourage Government, non-governmental organisations, industry associations to develop the mechanisms to allow this. There is understandable nervousness from individual companies to 'put their head above the parapet' on this issue. Business progress will be slow if ideas and experiences are not shared between businesses and with other stakeholders. As such, companies working together, and with other stakeholders, will be to the benefit of all.
- 5.6 We welcome the guidance being developed with the British Retail Consortium, particularly if this is intended to outline a framework for companies in other sectors. We recommend that Government also works with other industry associations to develop sector-specific guidelines for high-risk sectors, such as the construction, care and hospitality sectors.
- 5.7 The guidance should be bold. This reflects the increasingly strong social expectations about companies' responsibilities with respect to modern slavery and will encourage swifter progress. For example, companies should be encouraged to be transparent when they find modern slavery in their operations or supply chains, and be open about how they are remedying it.
- 5.8 We believe that for business to successfully address modern slavery, all stakeholder groups, including Government, must continue to focus on this issue and ensure that consideration of modern slavery is consistently embedded in future activities.

## **6. The Gangmasters' Licensing Authority**

- 6.1 We believe that companies in high-risk sectors might also be further supported by an extension of the Gangmasters' Licensing Authority (GLA). The GLA has been a valuable ally in companies'



fight against modern slavery (particularly in the UK) in parts of the agriculture, horticulture and aquaculture sectors and its expertise could be beneficial to other sectors.

- 6.2 We are pleased that the Government has agreed that there is “*scope to review some of [the GLA’s] powers, remit and structures*” and we look forward to the outcome of this review.

## **7. Board responsibility**

- 7.1 We support legislation that establishes the extent of Board level responsibility for modern slavery issues. However, under the UK’s legal framework of unitary boards, the entire Board remains collectively and ultimately responsible for a company’s performance and reporting – on modern slavery and all other issues.
- 7.2 The UK Corporate Governance Code gives certain Board members specific responsibilities related to the operation of the Board, but not for specific business issues. It also establishes a higher degree of expectation of a certain individual’s financial expertise while not giving that director sole responsibility for financial matters<sup>10</sup>. We know of no other instances, under general business practice, of responsibility for specific business issues being assigned to a single director. We believe that it would be inappropriate to require companies to identify an individual to take ultimate responsibility for modern slavery.
- 7.3 Furthermore, section 4.1.12 of the Disclosure and Transparency Rules<sup>11</sup> requires each director to make a responsibility statement in respect of the management report in the annual report and accounts, which includes the Strategic Report. Where the Disclosure and Transparency Rules do not apply, the Strategic Report must also be approved by the Board. Therefore, all directors would in any case remain responsible for any reporting relating to modern slavery in the Strategic Report.

## **8. Broader human rights**

- 8.1 We understand the current focus on modern slavery and agree that this issue should be addressed. However, we encourage all stakeholders to recognise that modern slavery is only one part of a broader responsibility that business has to respect human rights. In our experience, many UK companies could better understand, address and report on the range of human rights risks that may be relevant to them.
- 8.2 We encourage companies to use existing reporting channels, including the Strategic Report where appropriate, to report more fully on human rights issues, such as explaining their risk assessment and management approaches.
- 8.3 Human rights, including modern slavery, represent a significant risk and opportunity for many companies and we commit to supporting our clients to better consider these issues.

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<sup>10</sup> [www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.pdf](http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.pdf)

<sup>11</sup> [fshandbook.info/FS/html/handbook/DTR/4/1](http://fshandbook.info/FS/html/handbook/DTR/4/1)