

8 December 2021

Rachel Maclean MP
Parliamentary Under Secretary of State (Minister for Safeguarding)

By email: PS.RachelMaclean@homeoffice.gov.uk

Dear Minister

Following the excellent debate in Westminster Hall on 26 October, I wanted to give my full support to the proposal that government strengthens reporting requirements for financial services institutions under Section 54 of the Modern Slavery Act. Specifically, that government should mandate these institutions to disclose their exposure to modern slavery risk, and efforts to mitigate it, within their investing and lending portfolios.

Your colleague Gareth Davies MP, who secured the debate, spoke eloquently of the unharnessed power of the UK sector and “a £9 trillion lever that we are not yet pulling in our fight against modern slavery”. I was heartened to hear that you will consider extending the scope of section 54. I also welcome your encouragement of voluntary reporting from organisations that are not yet in scope of the Act.

I have reached my conclusions after two years of engagement with the banking and investment sector, including ongoing collaborations with the Liechtenstein Finance Against Slavery and Trafficking (FAST) initiative. In January 2021 I launched *Preventing Modern Slavery and Human Trafficking: an Agenda for Action across the Financial Services Sector* in partnership with Themis and the Tribe Freedom Foundation. This report had uncovered worrying lack of awareness, leadership and strategy within the sector to address modern slavery and forced labour issues.

Subsequently I wrote to 51 financial services CEOs to ask them for their response to the report and whether they were taking concrete steps to address its recommendations. Forty four institutions responded, and my office compiled a summary report¹. Although there were a number of detailed and thoughtful letters, very few mentioned how modern slavery risk was being considered in investment and lending portfolios. The focus was predominantly on compliance and anti-money laundering activities. In many cases, social factors were only alluded to under the umbrella term of sustainability.

These findings were reflected in a recent research project by NGO Walk Free WikiRate and the Business and Human Rights Resource Centre.² Researchers analysed the modern slavery statements

¹ [The role of the financial services sector in eradicating modern slavery; CEOs respond to the Independent Anti-Slavery Commissioner](#), September 2021

² [Beyond Compliance in the Finance Sector](#), Walk Free, WikiRate and the Business and Human Rights Resource Centre, 2021

of 79 asset managers that had to report under the UK legislation. Only 27% of organisations disclosed that they conducted due diligence on modern slavery or human rights in their portfolios and only 15% disclosed direct engagement with investee companies through social audits, self-assessment reviews, shareholder resolutions or training.

The report is concerning on its own. But I subsequently heard that the researchers had been forced to discard a tranche of analysis of pension fund statements, because so few pension funds had written statements at all.

We can draw several conclusions from these findings. Because section 54 of UK legislation lacks clarity on financial institutions' reporting responsibilities, the majority clearly feel that they do not need to cover their portfolios within their modern slavery statements. Moreover, some institutions that are managing £billions of assets are using the argument that the legislation does not apply to them because their turnover does not meet the £36 million reporting threshold within the UK jurisdiction. The manner in which their turnover is calculated lacks transparency and belies the enormous amount of global influence that such organisations wield in the marketplace.

The gaps in legislation and resulting industry confusion represent a missed opportunity for government, investors and businesses: like FAST I believe that 'finance is a lever by which the entire global economy can be moved'³. Financial services reach deep into every industrial, manufacturing and global sector. Nudging them towards closer scrutiny of clients or investee companies would not only create valuable new datasets, but would also act as a powerful driver of standards at home and abroad, particularly given the UK's international standing as a global centre of finance.

I would like to draw your attention to Australia's Modern Slavery Act of 2018, which carries more clarity for the financial community. Here, the legislation explicitly covers a wide range of entities including trusts, superannuation funds and other types of investment organisations. Under the mandatory reporting criteria, investment and lending portfolios are defined as part of an entity's direct operations, and must be reported on in the same way as other parts of the business. The Australian government also sets out how some investment activity can be classified as part of an entity's supply chain, such as when asset owners hire managers to manage their portfolios. Australia's accompanying official guidance provides further support for organisations, carrying a specific section on how entities should report on their financial and lending arrangements, along with a case study.

Although Australia's modern slavery legislation only came into force in 2019, there is growing evidence that its more explicit requirements are galvanising activity in the financial community. For example, in November 2020 the Investors Against Slavery and Trafficking Asia Pacific group (an investor-led group supported by Liechtenstein's FAST initiative and NGO Walk Free) wrote to 100 Australian stock exchange listed companies setting out their expectations on modern slavery reporting. This is just one example of how the legislation is triggering more targeted and in-depth conversations between financial services organisations and industry.

³ *A Blueprint for Mobilizing Finance Against Slavery and Trafficking*, Final Report of the [Liechtenstein Initiative's Financial Sector Commission on Modern Slavery and Human Trafficking](#)., September 2019

By comparison, the UK's statutory guidance only mentions investors in the context of scrutinising other businesses and driving them towards transparency. The guidance says:

"It will be for consumers, investors and non governmental organisations to engage and/or apply pressure where they believe a business has not taken sufficient steps..."

There is no requirement for investors to disclose their own activities. The guidance makes no mention of investment and lending portfolios at all.

This is why the fifth and final recommendation⁴ in my recent report is for financial institutions to report on their investment and lending portfolios under Section 54 of the Modern Slavery Act. While I will continue to encourage voluntary reporting, I acknowledge that legal clarity is important in this risk-averse and compliance-driven sector: most financial services institutions will be reluctant to disclose activity unless their peers are doing the same.

Section 54 is a ground-breaking piece of legislation. Now that government is in the process of reviewing and strengthening its requirements, I would urge you to seize this opportunity to enforce its impact. By specifying section 54 requirements within the financial sector, we can ensure that the heinous crime of modern slavery becomes a mainstream concern in the boardrooms of all major industries.

I look forward to receiving your response, and would also like to alert you to the fact that I am contacting your colleague in the Treasury, John Glen MP to ask for his additional support.

In the interests of transparency, I request that you respond in a way that enables me to publish your letter on my website.

Yours sincerely,



Independent Anti-Slavery Commissioner

⁴ [Five IASC recommendations to the financial sector \(antislaverycommissioner.co.uk\)](https://www.antislaverycommissioner.co.uk)



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Dear Dame Sara,

Thank you for your letter of 8 December 2021 and also of 9 December 2021 to the Economic Secretary to the Treasury and City Minister regarding extending section 54 of the Modern Slavery Act to explicitly cover financial services institutions. Your letter of 9 December was also passed to me to respond as the Minister responsible for this issue. I am sorry for the delay in responding to your letters.

On 19 January we discussed this matter alongside wider modern slavery issues and I appreciate your commitment to this agenda and the focus you have given to it.

As you mentioned, section 54 is a ground-breaking piece of legislation – the first of its kind to require all commercial organisations with a turnover of £36 million or more to report annually on the steps they have taken to prevent modern slavery in their operations. Since it was enacted, the Modern Slavery Act 2015 has driven a change in business culture, spotlighting modern slavery risks on boardroom agendas and it has influenced the international human rights community.

The UK has taken important strides since 2015 to tackle modern slavery, but we recognise that this is a complex and rapidly evolving threat and there is more to do. That is why the Government is conducting a review of the 2014 Modern Slavery Strategy and we plan to publish a new strategy this year. We want to build on the considerable progress made to date, adapt our approach to the evolving nature of these terrible crimes, and continue our leadership in tackling modern slavery.

As part of the review, we will work with HM Treasury to consider how best to utilise the unique power of financial services institutions to tackle modern slavery. My officials have also been engaging with businesses to better understand what more we can do to encourage and incentivise the financial community to place more emphasis on tackling modern slavery. This work will help us to set the strategic direction for the years to come.

Rachel Maclean MP