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MONASH CENTRE FOR FINANCIAL STUDIES

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Measuring Disclosure Quality of Modern Slavery Statements

ASX300 Companies

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EXECUTIVE SUMMARY

Modern slavery is a global phenomenon, with 40.3 million victims and $354 billion at-risk products imported by G20 countries in one year alone, according to estimates by the Walk Free Foundation (2018).

Australia has historically been complicit in this problem – both as an importer of suspect products and components, and as a host of modern slavery practices. According to the Australian Border Force, 1567 victims of modern slavery were reported in Australia from 2015 to 2017.

In 2018, amid increasing public concern about the prevalence of modern slavery, the Australian Parliament passed a new law – the Modern Slavery Act – requiring large Australian companies to identify and report on risks of modern slavery practices in their operations and supply chains.

This report by researchers at the Monash Centre for Financial Studies (MCFS) evaluates the disclosure quality of modern slavery statements submitted by the largest companies listed on the Australian Securities Exchange (ASX300) for FY2020 under the requirements of the Act. The report expands upon a related research project conducted in 2021 by MCFS, which was confined to ASX100 companies.

36 per cent of Modern Slavery Statements submitted by ASX300 companies received a 'fail' grade of either E or F.

Consistent with the previous study, this report reveals wide disparities in the quality and disclosure levels of modern slavery statements submitted by the largest 300 stock exchange-listed Australian companies. While some companies went well beyond mere compliance, others barely met the law's requirements.

In contrast to our previous ranking system for modern slavery statements, the extended analysis for this report introduces a rating system, in which each company's statement is graded on a letter scale from A (highest) to F (lowest) according to a defined set of reporting criteria. Worryingly, our analysis assigned 'fail' grades of E or F to 36 per cent of ASX300 companies.

Among the lowest rated companies, some have claimed to be constrained by limited visibility over their supply chains, while others have argued that the risks of modern slavery in their operations and supply chains are inherently low due to the nature of their businesses.

Nevertheless, the apparent lack of engagement of so many big companies over this issue suggests a large gap remains between the aims of the Modern Slavery Act and the reality of Australia's current patchy efforts to help reduce the global scourge of modern slavery.

In key findings:

- Only six ASX300 companies received the highest A rating for their modern slavery disclosure statements. The A-rated companies were Ansell, Bega Cheese, Fortescue Metals, Wesfarmers, Westpac, and Woolworths.
- More than a third of the statements received a 'fail' grade of either E or F. A quarter of them passed with D and almost another third

received a C rating. Five per cent of the statements were B graded. (See Figure 1)

- Companies with poor disclosure scores included Fisher & Paykel Healthcare, IDP Education, Invocare, Nanosonics, and WestGold Resources.
- Large companies with relatively high employee numbers and supply spending tended to score relatively well on modern slavery disclosure quality. However, not all the biggest firms scored well; 20 of the ASX100 companies received E or F ratings.
- The utilities, consumer staples and real estate sectors were the best performers for modern slavery disclosure scores. Health Care firms were the worst performers, on average.
- Companies with high-scoring statements tended to have a history of sustained effort in managing modern slavery and other human rights issues.
- The most common types of modern slavery risks cited by ASX300 companies were forced labour, child labour and debt bondage.

About the Monash Centre for Financial Studies (MCFS)

A research centre based within Monash University's Monash Business School, Australia, the MCFS aims to bring academic rigour into researching issues of practical relevance to the financial industry. Additionally, through its engagement programs, it facilitates two-way exchange of knowledge between academics and practitioners. The Centre's developing research agenda is broad but has a current concentration on issues relevant to the asset management industry, including retirement savings, sustainable finance and technological disruption.

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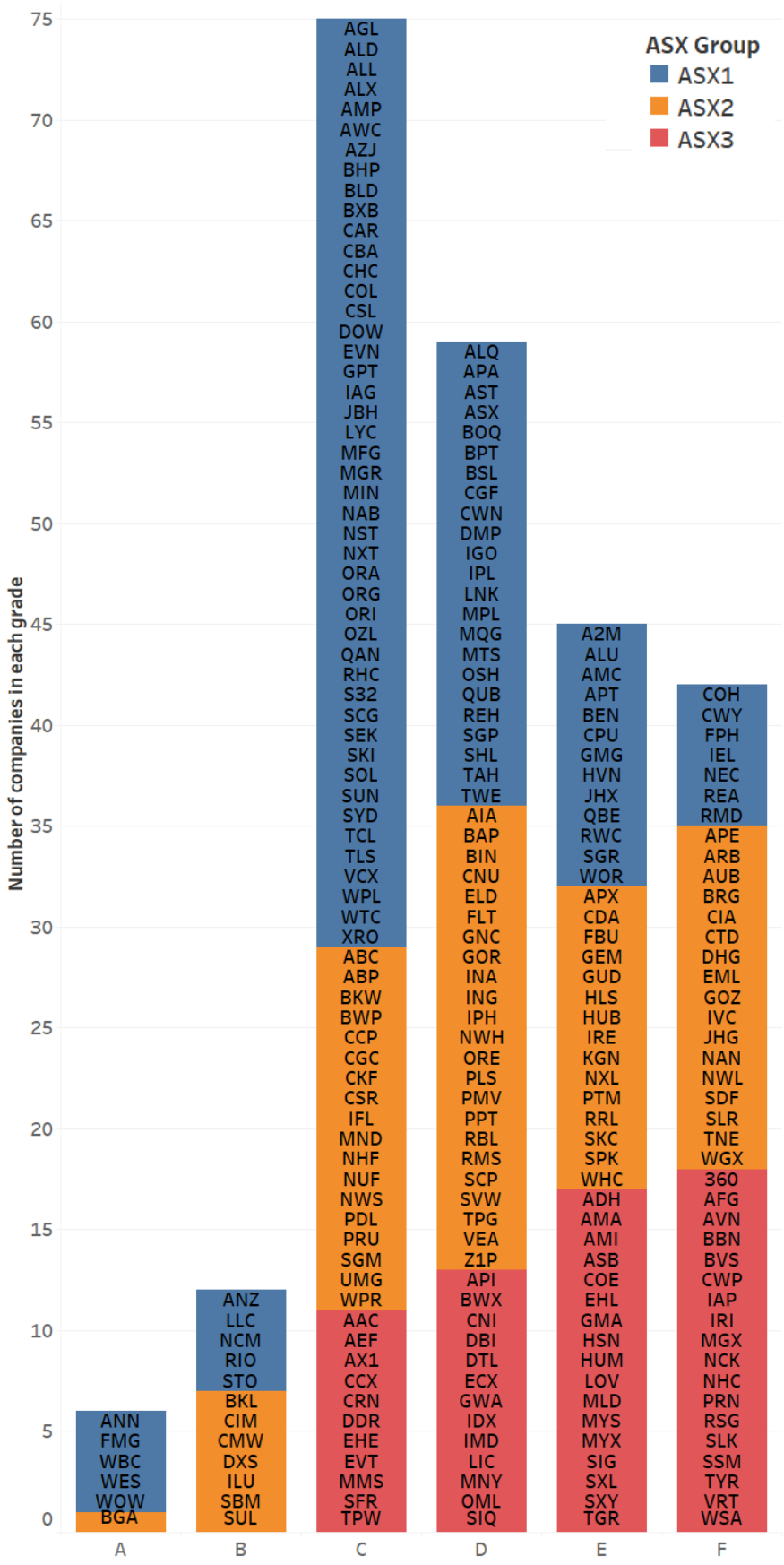

*Figure 1: Modern Slavery Statements in different grades**
*(*Displayed are tickers on the Australian Securities Exchange of ASX300 companies.)*

INTRODUCTION

To people in the developed world, modern slavery might seem like a remote concept – something that happens in other countries. But this ignores the truth about how many of us may be effectively supporting modern slavery in our daily lives. As consumers, we may be buying products made by victims of modern slavery. And as investors – professional or amateur – we may be supporting and profiting from the activities of companies that engage in or contribute to modern slavery practices.

No country, industry or entity is immune from modern slavery. Although most modern slavery physically occurs beyond Australian borders, it can and does also happen within them – 1567 cases were reported in Australia between 2015 and 2017, according to the Australian Border Force.

Amid increased public awareness of the issue, Australian companies – particularly companies that operate internationally and rely on international suppliers in countries with higher risks of modern slavery – have come under pressure to monitor and mitigate their potential exposure to the risks in their operations and supply chains.

In 2018, the Australia introduced the Modern Slavery Act, one of several new laws requiring corporate social disclosure. The Act requires entities based or operating in Australia with annual consolidated revenue of more than $100 million to report on the risks of modern slavery in their operations and supply chains and actions. It prescribes seven mandatory reporting criteria. The reporting requirements apply to various types of organisations including companies, financial institutions such as banks and investment funds, and others. Statements must be prepared with a view to informing a wide range of audiences, including government, customers, business partners, investors, suppliers, business peers, civil society and academics.

Academic research on modern slavery is scarce – particularly empirical studies on the disclosure of modern slavery. Christ, Rao and Burritt (2019) examined the voluntary disclosure practices of large Australian companies before the Australian law took effect. They reported that the volume and quality of disclosures about modern slavery were low, and that disclosures, where available, were typically in narrative format. Birkey, Guidry, Islam and Patten (2018) documented relatively high compliance among US firms subject to the Californian Transparency in Supply Chains Act. The study, however, finds that the disclosures lacked substance. More recently, the Walk Free Foundation (2021) reported that 53per cent of the modern slavery statements of asset managers in the UK failed to meet all minimum requirements of the country's Modern Slavery Act.

The Australian law provides clearer and more prescriptive guidance to companies relative to its UK counterpart. However, as this study reveals, this has not ensured universally high compliance standards. Therefore, through our ongoing project to analyse the disclosure quality of annual modern slavery statements, we aim to provide an independent benchmark to help Australian companies understand and measure their performance against their peers, and to help them strengthen their actions in years to come.

MODERN SLAVERY REGULATORY FRAMEWORK

While modern slavery is not a new issue, the regulatory framework governing modern slavery practices is still in its infancy in many jurisdictions worldwide.

The Australian government says modern slavery is defined by circumstances where 'coercion, threats or deception are used to exploit victims and undermine or deprive them of their freedom'[1]. As such, it applies to situations of greater severity than just substandard working conditions.

Australia's Modern Slavery Act (2018) describes eight types of exploitation that meet its definition of modern slavery: human trafficking, slavery, servitude, forced marriage, forced labour, debt bondage, deceptive recruiting for labour or services, and the worst forms of child labour (by which it means slavery practices or hazardous work involving children or when children are used to produce of traffic drugs).

In its guidance for reporting entities, the Act says modern slavery risks involve 'the potential for your entity to *cause*, *contribute to*, or *be directly linked* to modern slavery through its operations and supply chains'.

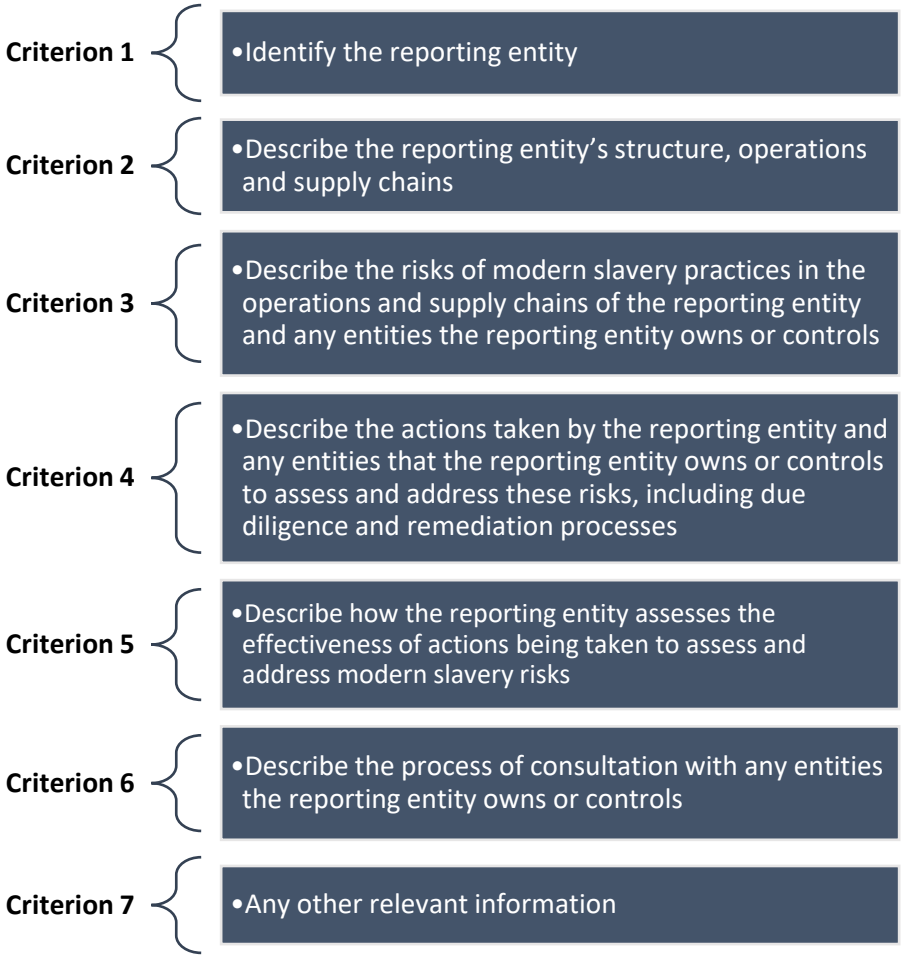

Figure 2: Mandatory reporting criteria of the Act

[1] Commonwealth Modern Slavery Act 2018 – Guidance for Reporting Entities

Modern slavery statements are kept on a publicly accessible register maintained by the Australian Border Force[2]. Any Australian organisation – company or otherwise – with more than $100 million in annual consolidated revenue must submit a statement annually. Joint or consolidated reports are allowed, enabling parent companies to submit statements on behalf of subsidiaries that pass the $100 million threshold. For 2020, more than 2000 statements were submitted.

The Australian Act is not the first of its kind; two notable predecessors were introduced in the United Kingdom in 2015[3] and California in 2012[4]. While the Australian law draws on some elements of UK law, it is more prescriptive both in the requirements of the submission process and its seven mandatory reporting criteria. More recent regulatory regimes include the New South Wales' Modern Slavery Act (2018), the French Corporate Duty of Vigilance Law (2017) and the Netherlands' Child Labour Due Diligence Law (2019). At the time of writing this paper, Canada's Senate had passed legislation clearing the way for a modern slavery law, and the New Zealand government was considering legislative and other options to address modern slavery risks in global supply chains in its National Plan of Action to 2025[5]. In addition to having modern slavery laws, some jurisdictions have also introduced legislation addressing specific types of modern slavery such as child labour and forced labour. And with more countries preparing to join the legislative push, pressure on big companies and investment institutions worldwide to play a more proactive role in eliminating modern slavery is certain to grow.

[2] https://modernslaveryregister.gov.au/
[3] Modern Slavery Act 2015
[4] The California Transparency in Supply Chains Act 2012
[5] https://www.mfat.govt.nz/en/trade/nz-trade-policy/combatting-modern-slavery/

THE MODERN SLAVERY RESEARCH PROGRAM

The Monash Centre for Financial Studies launched its Modern Slavery Research Program in 2020. With a primary objective of measuring the disclosure quality of Australian modern slavery statements, the research team devised a ranking system for statements based on Modern Slavery Disclosure Scores. In its first iteration, the project analysed the disclosure quality of statements submitted by ASX100 companies. The project's scope was subsequently expanded to include most of the top 300 listed Australian companies (ASX300).

Modern slavery statements were individually scored and analysed by MCFS research team members, with at least two researchers separately assessing each statement. The two sets of scores were consolidated and then reviewed by at least one supervisor before being finalised.

The assessment process involved the following steps:

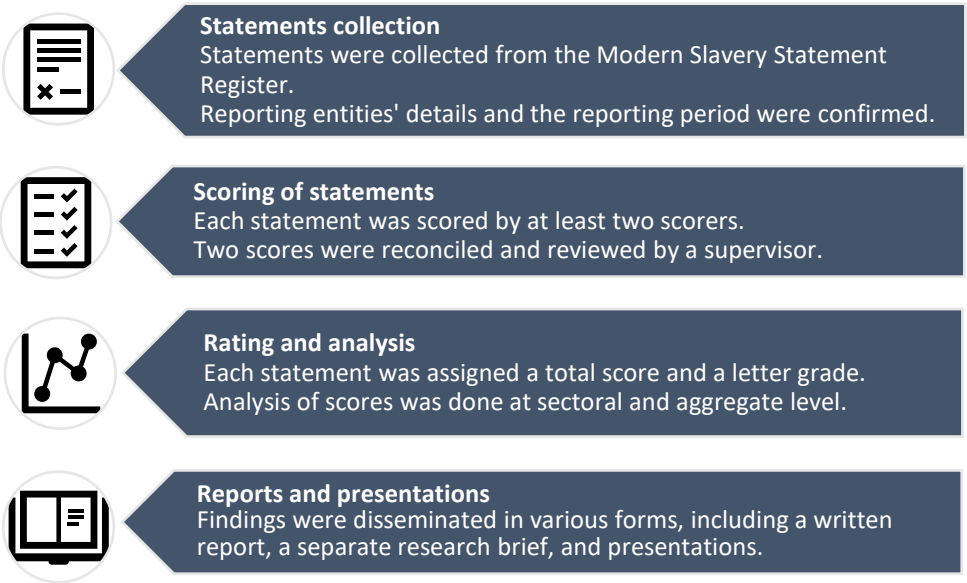

Figure 3: Progressive stages of MSD scoring and analysis

In the first phase of the project, our analysis covered 99 statements of ASX100 companies for FY2020 available by 30 June 2021[6]. In the second phase, our assessment included all available statements submitted by ASX300 companies for FY2020, resulting in a total of 239 statements scored.

As FY2020 marked the first year in which many Australian organisations submitted modern slavery statements, we sought to provide each reporting entity an understanding their level of compliance with the Act, how they performed compared to their peers, and areas where the quality of their disclosure could be improved.

[6] Endeavour Group (EDV) is a newly listed firm among the 100 constituents of S&P/ASX100 as at 30th June 2021. In 2020, EDV was included in Woolworths' statement. For Oil Search Ltd (OSH), the statement was dated 2019 but the disclosure note says that the statement is prepared for the reporting period ending 31 Dec 2020. For Alumina Ltd (AWC), the group's statement, prepared by Alcoa Australia, was used as AWC did not submit a separate statement.

METHODOLOGY – THE MSD SCORING FRAMEWORK

Effective comparison and evaluation of corporate disclosure is not always easy to achieve, particularly when comparing companies in different sectors, industries and regions. When it comes to modern slavery risks in company operations, the risks can be highly variable not just between sectors, but sometimes within them. However, disclosure guidelines provided under Australia's Modern Slavery Act are general and equally applicable across all industries. This enabled the Monash research team to design a standardised framework to evaluate the quality of modern slavery statements for FY2020 via our Modern Slavery Disclosure (MSD) score system.

In the absence of a set modern slavery statement template, statements for FY2020 varied significantly in length and level of detail. To ensure consistency in our assessments, quality was scored primarily based on how each statement addressed the seven mandatory reporting criteria in the Act, which are covered by five broad categories of disclosure (see below and in Figure 3).

1. Category One assesses the description of the reporting entity's structure and operations.
2. Category Two examines the description of the reporting entity's supply chains. Categories One and Two correspond to the Act's mandatory reporting Criteria One, Two, Six and Seven.
3. Category Three is about how the reporting entity describes the risks of modern slavery practices in its own operations and supply chains and any entities the reporting entity owns or controls. The indicators in Category Three are developed with reference to the mandatory Criterion Three of the Act.
4. Category Four is related to the actions of the reporting entity and associated entities to assess and address these risks, including due diligence and remediation processes, corresponding to the Act's reporting Criterion Four.
5. Category Five includes indicators describing how the reporting entity assesses the effectiveness of the actions being taken to assess and address modern slavery risks, with reference to the Act's reporting Criterion Five.

Within each of the five disclosure categories, we scored each company statement with reference to a checklist of potential individual reporting/disclosure items (see Figure 3).

Our initial results suggest that addressing and disclosing modern slavery risks presented significant challenges for many entities on their first attempt. In future reporting cycles, we will hopefully see evolution and improvement in compliance levels and the quality of disclosure.

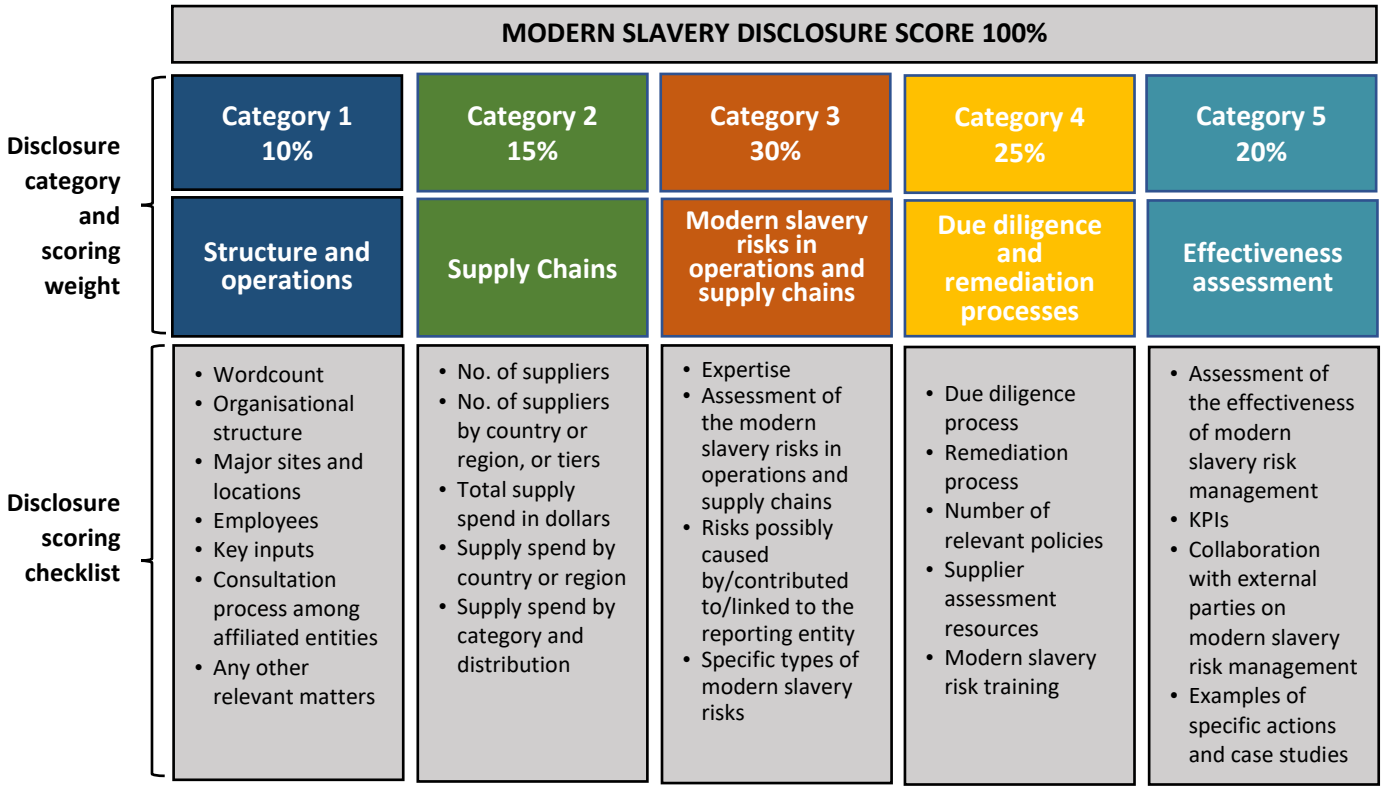

Figure 4: The MSD scoring framework

Categories 1 and 2 carry relatively lower weights of 10 per cent and 15 per cent respectively out of the total MSD score. This is primarily because descriptions of a reporting entity's structure and operations, and to a lesser extent, supply chains, could be readily available via other sources such as the entity's website and annual reports, whereas specific disclosures on modern slavery risks and how the reporting entity manages such risks will typically need to be prepared specifically for the modern slavery statement.

Within each of the five modern slavery disclosure categories, we allocated points (weight) to each component item. When allocating points to individual items, we made judgements about (1) how difficult it was for the company to satisfy that disclosure item, relative to other items, and (2) the contribution of the disclosure item towards increasing understanding of the company's modern slavery risks and its actions, relative to other items.

This resulted in a spread of scoring values between component disclosure items. For example, in Category 1, disclosing the total number of suppliers attracts a score of just 2 points, but providing a breakdown of suppliers and supply spend by location attracts 3 points. By contrast, disclosure of whether the company has a dedicated in-house team to deal with modern slavery and human rights issues (Category 3) attracts 4 points – reflecting both the likely cost of having such a team and the potential benefit in terms of mitigating modern slavery risks.

For most disclosure items, companies attract the full score by providing the relevant information. However, partial scores are given for partial responses in items for which multiple scoring elements are applied. Full details of scores we assigned to individual disclosure items across the five categories are provided in Appendix 1.

Given the subjective judgements involved in allocating scoring values between various disclosure items, we have encouraged feedback from companies and other interested parties on this issue after the initial phase of the project. The feedback has helped inform some minor adjustments to scoring allocations for the next phase of the project.

PROJECT DEVELOPMENT

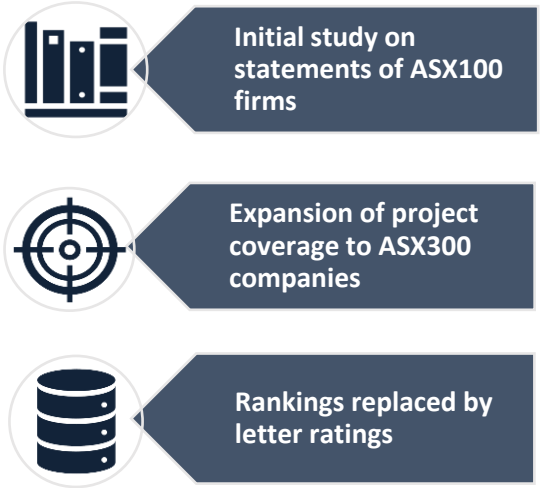

Figure 5: Project milestone

Expanding the MSD coverage to ASX300 firms

Since the release of the research brief on ASX100 companies, we have been actively engaging with ASX100 companies to explain our scoring model and provide recommendations on how companies can improve their future statements. We have also presented our research to large institutional investors to inform them about how they could, or should, make modern slavery a priority issue for their engagement with portfolio companies. The requests from various investors for a more comprehensive coverage of the research prompted our decision to expand the project's scope to cover the 300 largest ASX companies.

An initial study on the modern slavery statements of ASX100 firms

MCFS completed an initial assessment of the inaugural modern slavery statements of ASX100 firms in August 2021 and reported the results in our research brief titled *Modern Slavery Statement: Disclosure Quality of ASX100 companies*[1]. The assessment revealed large disparities in disclosure quality between statements. While most companies reported having invested resources in understanding modern slavery risks and preparing their statements, a relative lack of commitment was evident in some statements.

Moving to a letter-grade rating approach

With the coverage expanded to ASX300 companies, we have adopted a letter-grade rating approach, with modern slavery statements rated from A (highest) to F (lowest) instead of the ranking approach applied to ASX100 companies in the first phase of the project.

The letter-grade rating approach (illustrated below in Figure 5) better enables comparability among statements across sectors and over time as the sample group changes from one assessment to the next.

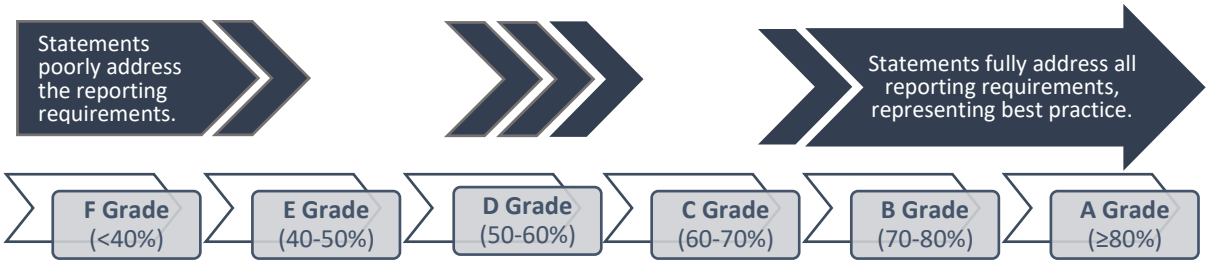

Figure 6: The letter-grade rating system

BENCHMARKING ANALYSIS AND FINDINGS

This section explains the rationale for each indicator we developed to measure the disclosure quality in each category, and reports how companies' responses were evaluated against the indicators.

For our analysis in this white paper, we have divided ASX300 companies into three groupings according to market capitalisation – ASX1, ASX2 and ASX3 (see details below in Table 1).

Table 1: Grouping of firms for analysis

Group	***Firms*** *(Based on the constituent lists of S&P/ASX indices as at 30/06/2021)*	***Number of FY2020 statements assessed***	**Market capitalisation** (A$ billion)	
			Mean	***Median***
ASX1	Firms in the S&P/ASX100 index	99	22.38	10.31
ASX2	Firms in the ASX200 index but not in the ASX100.	81	3.35	2.33
ASX3	Firms in the ASX300 index but not in the ASX200.	59	1.07	0.82

Disclosure category 1: Description of structure and operations

While most companies managed to describe their structure and operations adequately, we were surprised to find that some did not fully comply with this seemingly straightforward disclosure requirement. Notably absent from some non-compliant statements were descriptions of major operation sites, key products and services procured by the company, and explanations of consultation processes with entities covered by the statement. Many companies reported the impact of COVID-19 on their responses, which earned points under the disclosure category "*Any other relevant information*" – the seventh reporting requirement of the Act.

Statements' length varied widely. Word count ranged from as low as 299 up to 14,359.

About 20 per cent of the statements reviewed had fewer than 2000 words. In the whole sample, the mean average length of statements was 3600 words, and the median was 3164).

We also observed substantial differences in the length of statements between the ASX1, ASX2 and ASX3 groups. The median length of ASX1 company statements was more than 4000 words, compared with 3528 words and 2353 words for ASX2 and ASX3 companies respectively (See Figure 7). Disclosure quality also varied significantly between longer and very short modern slavery statements in which highly rated statements tended to be longer (See Figure 7 and Figure 8).

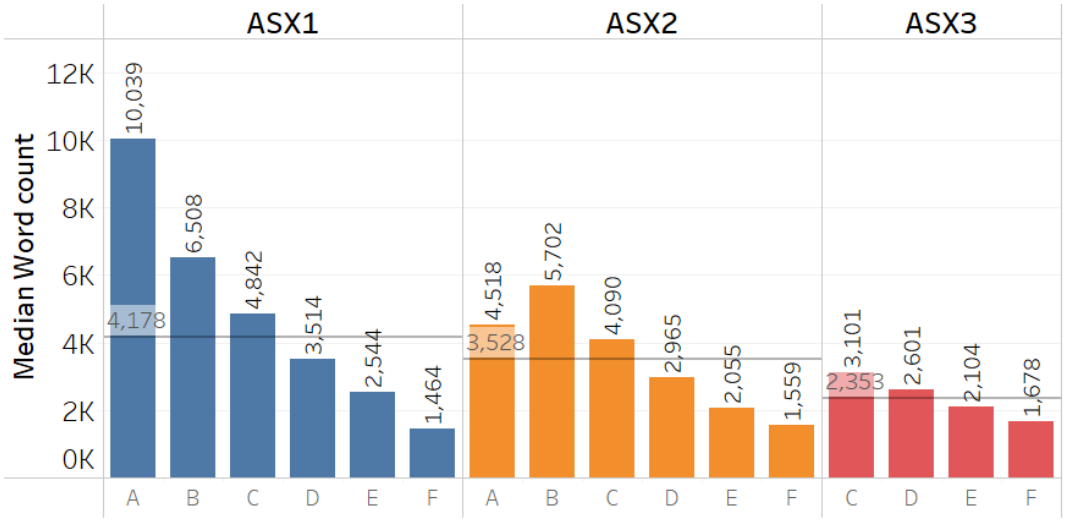

Figure 7: Word count of statements by groups of ASX300 companies

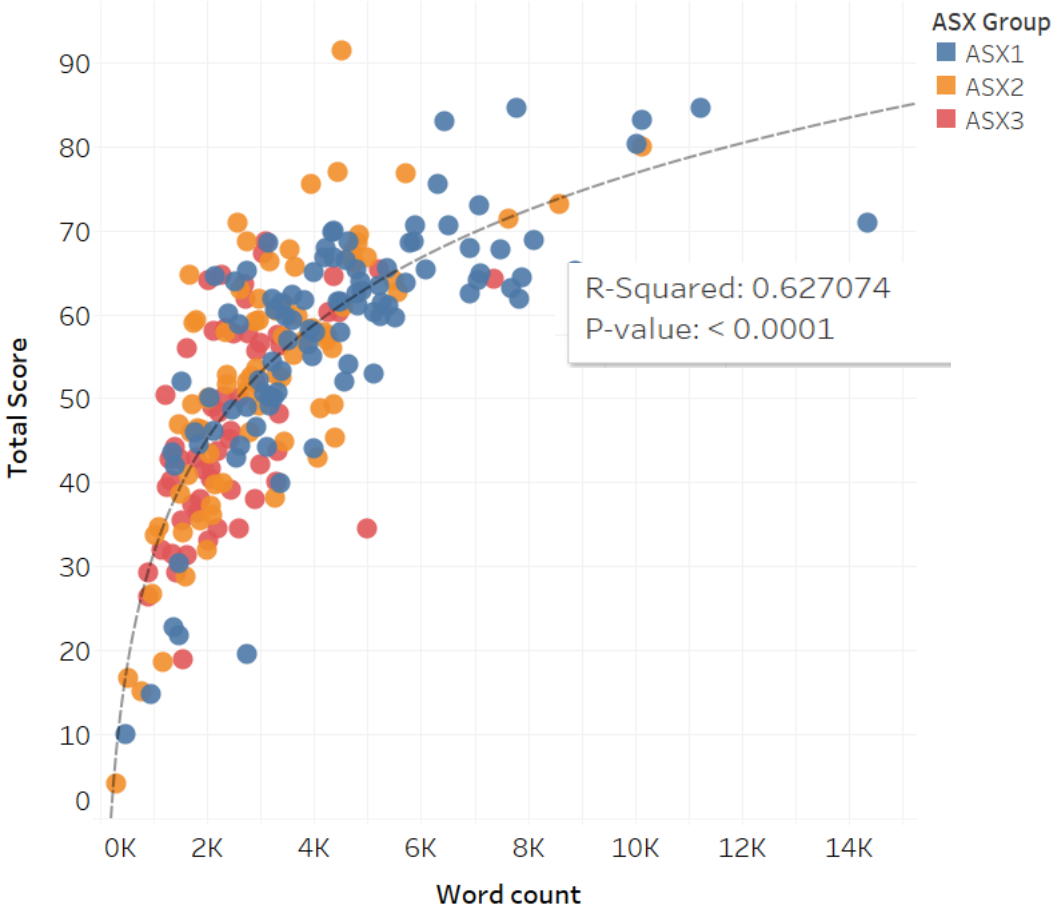

Figure 8: The relationship between statements' length and disclosure scores

Indicator	Why we included this indicator	How companies responded
Word count	Word count is a strong indicator of the level of detail reported.	Statement lengths varied significantly, with a clear association between longer statements and higher quality of disclosure.
Organisational structure	According to the Act's guidance document, 'structure' means the legal and organisational form of the entity.	Most statements clearly reported the structure of the reporting entity and its owned or controlled entities. While some provided specific percentage ownership levels for each entity, others gave a less detailed picture by listing related entities as wholly or partially-owned. Some statements (11 per cent) just referred readers to the company's website – although information outside the statement did not attract any score in our analysis.
Major sites and locations	Major sites and locations in Australia or overseas where the organisation undertakes its main activities. This information can be essential for risk scoping.	Ninety-two per cent of the statements reviewed provided information of the company's major sites and locations. Many companies used visual charts, including maps to illustrate locations.
Employees	Number of employees is a key indicator of the organisation's scale, which in turn *can* be one of the potential indicators of modern slavery risk.	Ninety per cent of statements reviewed provided the total number of employees. In a few statements, companies provided some meaningful breakdown of the employee numbers by contract type and percentage represented by unions.
Key inputs	Key inputs refer to the goods and services the reporting entity procures, which can be an essential element in risk scoping.	Sixty-eight per cent of surveyed statements provided information on key products and services they procured.
Consultation process among affiliated entities	A clear description of the consultation process will improve readers' confidence that the statement represents all relevant reporting entities.	Only 66 per cent of statements provided information on the consultation process – despite the Act's guidance document requiring demonstration of a meaningful and ongoing dialogue between each entity. Some companies equated the consultation process with just obtaining board approval for the statement.
Any other relevant matters	The Act's guidance document advises companies to disclose 'other relevant matters'. In FY2020, COVID-19 related issues were prominent among these.	Sixty-four per cent of reviewed statements referred to the impact of COVID-19 on modern slavery risks, and the management of such risks.

Disclosure category 2: Description of supply chains

A company's supply chains can be a primary source of its modern slavery risks – particularly when it has key suppliers overseas. Complexity in supply chains can also add to a company's risk profile.

Indicator	Why we included this indicator	How companies responded
Total number of suppliers and breakdown by country or region, or tiers	The guidance document of the Act asks companies to identify the countries or regions where their suppliers are located. The total number of suppliers and the breakdown of suppliers by locations reflects the scale and complexity of the supply chains of the reporting entity. This information may indicate potential exposure to certain countries or regions known to have high modern slavery risks; thus, it can be helpful for risk scoping.	Sixty-one per cent of the statements assessed included total number of suppliers. Sixty per cent also provided information about supplier locations, although only 17 per cent – most of them ASX100 companies – provided a detailed percentage or numerical breakdown by country and/or region. The other 43 per cent of statements just listed the major locations.
Suppliers by tiers	Although the Act does not prescribe disclosure of different tiers of suppliers, it does encourage reporting entities to delve deeper into supply chains where possible. This indicator seeks confirmation of whether a company has described any more than tier-one suppliers.	Forty-one per cent of statements provided clear information about whether disclosure in this category extended beyond tier one suppliers.
The total supply spend in dollars, and breakdown of supply spend by country or region	Total supply spend and its breakdown by location is another potentially important indicator of supply chain risks.	Just 33 per cent of statements detailed total supply spend. Most of these (29 per cent of the sample total) specified the supply spend by location, either in dollars spent in each location or as a percentage of the total supply spend. Most of those that reported on this item were larger companies.
Supply spend by category and distribution	Supply spend on major categories of goods and services that the reporting entity procures can serve as a helpful factor for scoping risks and prioritising risk management actions.	While 58 per cent of statements listed the major categories of goods and services the companies procured, only 26 per cent provided details of the dollars spent, or percentage of supply spend, in each major category.

While most modern slavery statements of ASX300 companies assessed for this study provided some detail of their supply chains, the depth of description varied significantly. Higher levels of disclosure were more common among ASX100 companies, many of which provided precise numbers of suppliers, the amount spent on supplies, and breakdowns of these figures by locations and major categories of products and services

procured. Others, however, confined their disclosure of supply chains to lists of major supply items. And among those that addressed the issue of location, some merely identified regions rather than countries, which is of limited value when assessing modern slavery risks.

Some companies added value to their supply chain information with charts – including maps with colour codes indicating the value range for each location, and in some case linking locations to the level of modern slavery risks reported by the Global Slavery Index.

In practice, it can be challenging for some companies to obtain accurate information about the location of suppliers – particularly in cases where billing addresses differ from the locations of their operations. A typical example of this problem would be an Australian billing address for supply operations located overseas. Companies in such situations therefore need to engage directly with suppliers to obtain accurate information about the location of their operations.

Companies that scored well in this disclosure category included Bega Cheese, Newcrest Mining and Santos. Investment in good supplier databases appears to have allowed many ASX100 and ASX200 companies to outperform smaller ASX300 counterparts in this category.

Disclosure category 3: Identifying modern slavery risks in operations and supply chains

The goal of this disclosure category is to evaluate how companies investigate and report modern slavery risks to which they may be exposed, and the processes in place to assess these risks. We used two indicators: the existence (or otherwise) of a dedicated team within the company to deal with modern slavery and other human rights risks, and whether they company uses independent consultants to deal with these issues.

In the first instance, a company may have a separate team or working group managing its modern slavery risks and responses. Typically (and ideally), the working group would have representatives across entities covered in the statement and/or various relevant departments such as legal, procurements, human resources, risks and sustainability.

While internal processes may seem sufficient in some cases to manage modern slavery risks, the Act's guidelines ask companies to consider the potential benefits from third-party expertise and partnership to improve responses to modern slavery.

In terms of risks reporting, while most companies reported modern slavery risks that could be present in the operations and supply chains, not all statements provided an assessment of their level of risk – high, medium or low. Additionally, a potentially misleading assumption by some companies that risks within operations based in Australia were negligible led to a lack of disclosure substance in some statements.

The Act requires a reporting entity, when identifying modern slavery risks, to specify whether they are *causing*, *contributing to*, or *being directly linked* to modern slavery – distinctions essential to guiding necessary responses to mitigate the risks. However, only a small number of statements used this prescribed terminology when reporting their risks. In most cases, the MCFS research team had to infer this information from the way the companies described the risks.

Many statements also discussed modern slavery risks in general terms without identifying specific types of exploitation they

were exposed to in their operations and supply chains. As detailed elsewhere in this report, the Act specifies eight different types of exploitation in its definition of modern slavery. Each has distinct sources and impacts and requires different approaches for mitigation. A failure to identify types of modern slavery risks limits the scope for a company to adopt a targeted approach to its risk management.

Companies that scored highly in this disclosure category included Ansell, Bega Cheese, Coles, Fortescue Metals, Santos, Westpac, and Woolworths.

Indicator	Why we included this indicator	How companies responded
Expertise, including a dedicated in-house working group and the involvement of third-party expertise	The Act's guidance recommends that the statement drafting process involve representatives of various teams of relevant functional areas in different locations across entities covered in the statement. It also requires that the statement demonstrate meaningful and ongoing dialogues among entities covered. Having a dedicated team would enhance the effectiveness of ongoing collaborations and preparation of the statement.	Sixty-two per cent of statements disclosed the existence of a dedicated working group or team, and 29 per cent reported the involvement of a third-party consultant or adviser. Within the ASX1 group, the proportions of firms that reported having a working group, or an external expert, were a relatively high 77 per cent and 36 per cent respectively. Most working groups cited had a general brief to deal with human rights issues, with modern slavery among them.
Modern slavery risks in operations and supply chains	This indicator assessed whether the company provided a clear assessment of the level of risk in their operations and supply chains.	Sixty-nine per cent of statements clearly reported the overall assessment of modern slavery risks in their operations and supply chains.
Risks caused by/ contributed to/related to the reporting entity	The Act explicitly requires reporting entities to not only identify risks, but state whether the whether they might be causing, contributing to or linked to the risks through their operations and supply chains.	Forty-five per cent of statements identified some risks potentially caused by the company. Seventy-two per cent reported risks that the company may have contributed to, and 67 per cent reported risks to which the company could be linked via their supply chains. However, not all companies used the precise wording prescribed in the Act – causing, contributing to, or related to – to identify the nature of their risk. In some cases, MCFS researchers were able to infer such disclosure from the information provided.
Specific types of modern slavery risks	The description of modern slavery risks should identify the types of modern slavery risks potentially present in the operations and supply chains.	Forty-nine per cent of statements assessed identified specific types of modern slavery risks. The highest level of compliance on this indicator was among larger companies in the ASX1 group.

Disclosure category 4: Due diligence and remediation

This category covers actions taken and disclosed by reporting entities to assess and address their modern slavery risks, including their due diligence and remediation processes. The category corresponds to the fourth mandatory criterion of the Modern Slavery Act.

Indicator	Why we included this indicator	How companies responded
Due diligence processes	The Act requires reporting entities to describe the due diligence processes. Due diligence in this context refers to the existence of an ongoing process to identify, prevent, mitigate and account for how an entity addresses actual and potential adverse human rights impacts, including modern slavery, in its operations and supply chains.	Eighty-nine per cent of reviewed statements described their due diligence processes for modern slavery risks. Companies that did not explain or disclose the existence of systems to assess and address modern slavery risks scored zero on this item.
Remediation processes	The Act requires reporting entities to include information about the processes to remedy situations where they may have caused or contributed to modern slavery.	While 51 per cent of statements described remediation processes, many were lacking in detail and substance.
Number of relevant policies	According to the Act's guidance document, reporting entities should develop tools and policies to monitor supplier risks. Companies should also review and improve existing policies and procedures and make policies relating to modern slavery publicly available.	Across the entire sample group of ASX300 companies, the number of relevant policies disclosed averaged 4.5 per company. ASX1 and ASX2 companies on average disclosed five relevant policies, while the corresponding average for smaller ASX3 companies was around three. (See Appendix 2c)
Supplier assessment resources	The Act asks reporting entities to request relevant information directly from suppliers, or to work with other entities and use existing credible assessments and resources.	Eighty-one per cent of statements disclosed resources used for supplier assessment. Some used self-assessment questionnaires directly distributed to suppliers, while others engaged third-party platforms such as SEDEX or other credible commercial supply assessment databases.
Modern slavery risk training	The Act asks reporting entities to improve awareness among staff, management and suppliers of modern slavery risks.	Sixty-six per cent of statements reported on modern slavery training conducted for staff, management and suppliers during the reporting period.

In most statements, companies described how their actions on modern slavery risk fitted in with their overall company governance structure. Out of the 239 statements assessed, 236 reported the existence of policies and processes to mitigate

human rights and modern slavery risks. However, the number and types of policies and processes varied significantly. The most common cited were codes of conduct and supplier codes of conduct, and policies governing compliance and integrity, responsible/ethical sourcing, responsible procurement, supply chain responsibility, recruitment, outsourcing, human rights, training and whistle-blowing. Some companies also had specific anti-slavery policies. For the purposes of scoring in this category, we focused purely on the reported existence of policies – not the possible effectiveness, or otherwise, of such policies for individual companies.

In reporting due diligence measures, most firms said they screened existing and new suppliers, and monitored them for ongoing slavery risks. While some firms had developed in-house supplier risk assessment models, others outsourced to third-party supplier screening and audit service providers. Several firms said they had added modern slavery standard clauses to supplier contracts, and required suppliers to use the same modern slavery contract terms with their downstream suppliers. Most firms also stated a commitment to training of employees and suppliers about the issue.

Just over half of the statements described remediation processes. But many of these were short on detail. Some mentioned speak-up channels or whistle-blower hotlines without elaborating on how the existence and accessibility of these channels had been communicated to their target audiences. And few companies explained how they would protect the confidentiality and privacy of whistle-blowers, nor any remedies available to victims.

Statements by Ansell, Newcrest Mining, Telstra and Wesfarmers were among these that scored highly on due diligence and remediation processes.

Disclosure category 5: Effectiveness assessment

This disclosure assessment category corresponds to the fifth mandatory requirement of the Act. Reporting entities are required to explain *how they assess* the effectiveness of their actions. The Guidance document notes that the Act does not ask for a conclusion on whether an entity's actions are effective.

Because FY2020 was the inaugural reporting period for all companies, many companies said a proper effectiveness assessment process would need to be developed further in the future. We, therefore, confined our assessment of the disclosure quality for this category to whether companies had a transparent process to assess their effectiveness in future. For example, a good starting point might be planning for the metrics or key performance indicators (KPIs) for future evaluation.

Statements that scored well in this category provided specific breakdowns of what they considered effective management of modern slavery. They also listed activities that they considered essential to monitor and conduct, and metrics to measure their performance. Typical internal activities for effectiveness assessment included regular meetings between the board and modern slavery working groups, annual reviews of policies and processes, tracking suppliers' progress, and internal performance audits. Companies also worked with third parties (such as NGOs or industry groups) to undertake independent reviews of their work.

Further, we considered if a statement included case studies and examples to measure the depth of reporting – as recommended by the Act's guidance document. Specific examples and case studies provide readers with credible information and depth on how reporting entities have handled risks and instances of modern slavery. Bluescope Steel, Downer, SOUTH32, and Transurban, each provided several case

studies in their statements – and in each case providing useful insights into how they manage their modern slavery risks.

Companies that scored well on the fifth disclosure category included Coles, Woolworths, Wesfarmers, and Westpac.

Indicator	Why we included this indicator	How companies responded
Assessment of the effectiveness of modern slavery risk management	The fifth mandatory criterion of the Act requires reporting entities to describe how they assess the effectiveness of their actions taken to assess and address the risks of modern slavery practices.	This item comprises four separate scoring disclosure elements: who is responsible, what is reviewed and monitored, how and how often, and the level of detail provided. While 91 per cent of statements described what was assessed and monitored, only 44 per cent made it clear who was in charge of the process, and 51 per cent specified how and how often assessments and reviews would be conducted. Fifty-one per cent provided details of the activities.
Key performance indicators (KPIs)	The Act's guidance document suggests reporting entities design a clear set of KPIs.	Just 18 per cent of statements provided clear sets of KPIs for monitoring and evaluation. Many statements cited action plans, but lacked detail and clear evaluative metrics.
Collaboration with external parties on modern slavery risk management	The Act's guidance document encourages collaboration and partnership with external parties to strengthen responses to modern slavery.	Just 22 per cent of statements mentioned specific collaborations with external entities such as consultancies and NGOs, representatives of stakeholders, local communities and industry groups.
Specific examples and/or case studies	The Act's guidance document says including case studies can help reporting entities show that their actions to identify and address modern slavery risks are effective.	Thirty-three per cent of statements used case studies to illustrate actions taken to assess and address modern slavery.

A summary of collective responses to selected disclosure items is provided in *Figure 9*. The panel below highlights best practices we observed among some of the highest-scoring statements, and issues typically encountered in lower-scoring statements.

What are the best practices?

The highest scoring Modern Slavery Statements typically provided:

- A clear description of their supply chains, including supplier numbers and dollars spent, and regions and countries
- Clear information about employees and numbers of direct hires, labour hire contracts, and the coverage of Enterprise Agreements
- Clear scoping of risk (based on materials/goods/services bought, or location of suppliers) and assessment of risk level,
- Disclosure of specific types of modern slavery risks relevant to the firm
- A systematic approach to assessing supplier risks, such as a supplier risk assessment matrix using various demographic and economic criteria related to suppliers as well as nature of contract (one-off purchase orders v multiple-year contracts)
- Information on supplier audits, issues identified, issues resolved and plans for further audits
- A clear set of KPIs for effectiveness assessment.

What are the issues?

Common issues observed in low-scoring statements included:

- Poor description of supply chain, resulting in lack of clarity about potential sources of risks
- Excessively general discussion of modern slavery risks, omitting disclosure of specific types of risks relevant to the firm,
- Lack of detail on governance structure to manage modern slavery risks (oversight body not specified, inadequate due diligence on screening and selecting suppliers and reviewing existing suppliers),
- Unclear description of remediation processes (grievance mechanisms and guidelines for following up)
- Incomplete description how the company assesses effectiveness of its actions in terms of who/what/how often and how to assess
- No specific KPIs or action plan
- An apparent lack of understanding of available resources and tools to learn about relevant risks and assess risks.

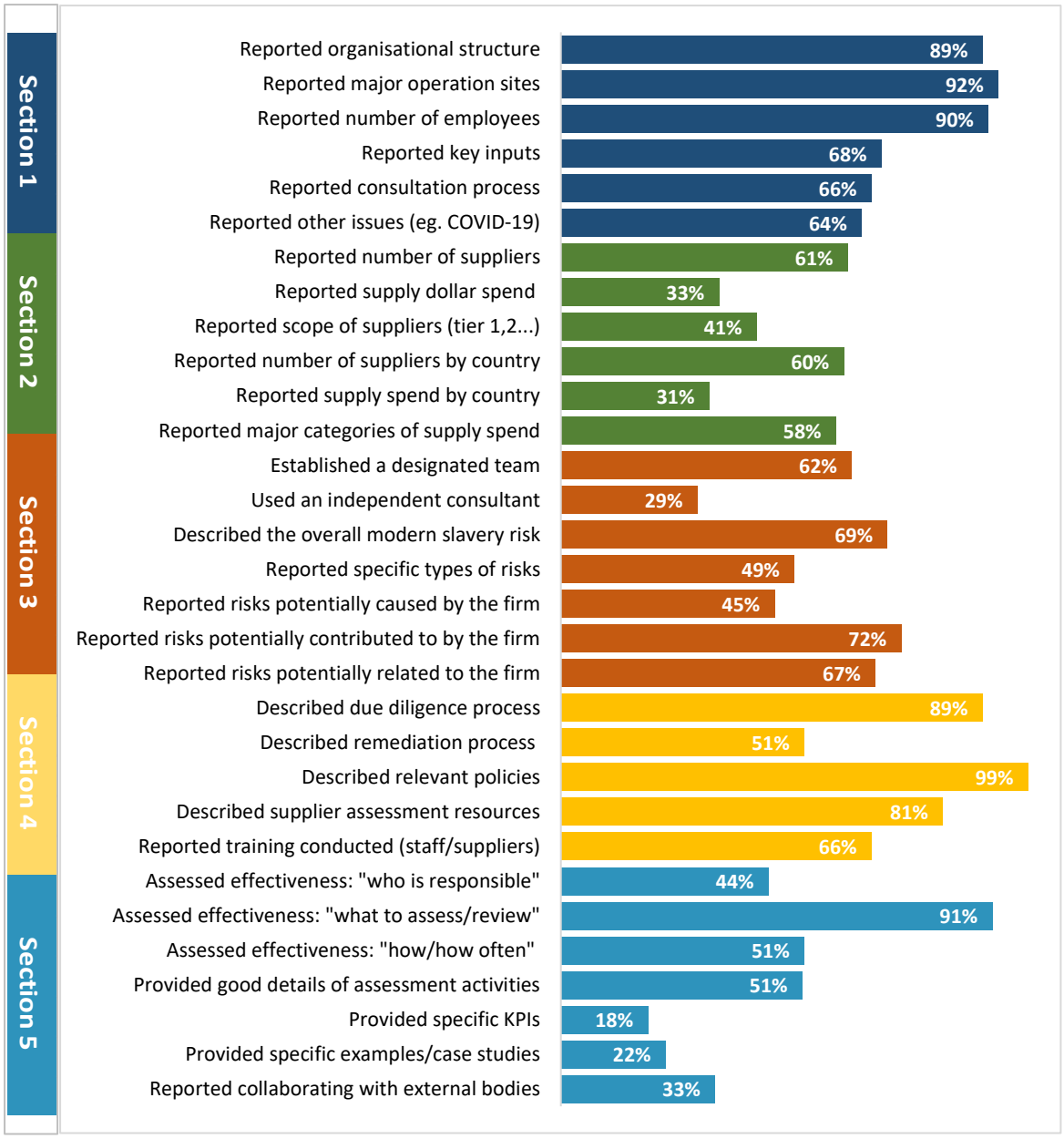

Figure 9: The response rate to selected indicators/disclosure items – ASX300 companies

DISCLOSURE QUALITY OF MODERN SLAVERY STATEMENTS OF ASX300 COMPANIES

Overall observations

In our first round of assessment of ASX100 companies, we identified wide disparities in disclosure quality (MCFS, 2021). When we expanded the sample group to ASX300 companies, which by definition includes many smaller companies, for the second phase of the project, we observed increased disparities in disclosure quality. Scores in the expanded sample ranged from as little as 4 to 91.5 out of a total of 100. The average score was 53.5, the median was 56.6, and the standard deviation was almost 15.

Based on a total score out of 100, each statement received a letter grading between A (highest, 80-100) and F (lowest). Disclosure quality was positively related to firm size, with higher scoring companies typically having higher median values of market capitalisation, total assets, total equity and total revenue.

Only six companies out of the total sample of 239 (or less than 3 per cent) produced A-rated modern slavery statements. The A-graders were Ansell, Bega Cheese, Fortescue Metals, Wesfarmers, Westpac Banking, and Woolworths.

Table 2: Characteristics of firms in different grades

	Modern Slavery Disclosure Quality Grade					
	A	**B**	**C**	**D**	**E**	**F**
Total number of statements	6	12	75	59	45	42
% of statements in each grade	2.5%	5.0%	31.4%	24.7%	18.8%	17.6%
Number of ASX1 statements	5	5	46	23	13	7
Number of ASX2 statements	1	7	18	23	15	17
Number of ASX3 statements	0	0	11	13	17	18
Market Cap ($m)	45,664	6,732	6,268	3,595	1,807	1,770
Total assets ($m)	27,299	12,006	4,059	3,265	1,463	1,146
Total equity ($m)	5,727	4,808	2,144	1,095	772	635
Total annual revenue ($m)	24,581	3,420	1,462	1,483	776	478
Number of employees	26,500	6,575	2,900	1,341	1,479	1,200
Number of suppliers	5,387	3,160	3,000	1,900	890	1,575
Total supply spend ($billion)	6.30	3.27	1.50	0.90	0.50	0.89

All values reported are median unless otherwise stated. Data source: Market cap ($m), total assets, total equity and annual revenue data were extracted from Bloomberg, as of 30 June 2021. Other data points were collected from the companies' modern slavery statements and our analysis.

Size matters

The previously noted tendency of firms with large market capitalisation to achieve the highest scores could be explained by large firms having more resources to invest in developing expertise, systems, and tools to help them deal with modern slavery. Specifically, we observed that:

- Firms with A, B and C ratings for their modern slavery statements were much larger, on average, than those in the three lowest grades in terms of firm size (market capitalisation, total assets, total equity), operations (number of employees), and size of the supply chains (the number of suppliers and the total dollars of supply spend).
- There were some notable exceptions to the 'size matters' rule, with 13 statements of ASX100 companies receiving E ratings and seven scoring the lowest F rating.

Figure 10 depicts a positive trend line for the relationship between the revenue for the last financial year and MSD scores. It also shows how ASX1 firms, represented by blue dots, had a dominant share of higher scores.

ASX300 companies' market capitalisation and revenue data were collected from Bloomberg on 31 October 2021.

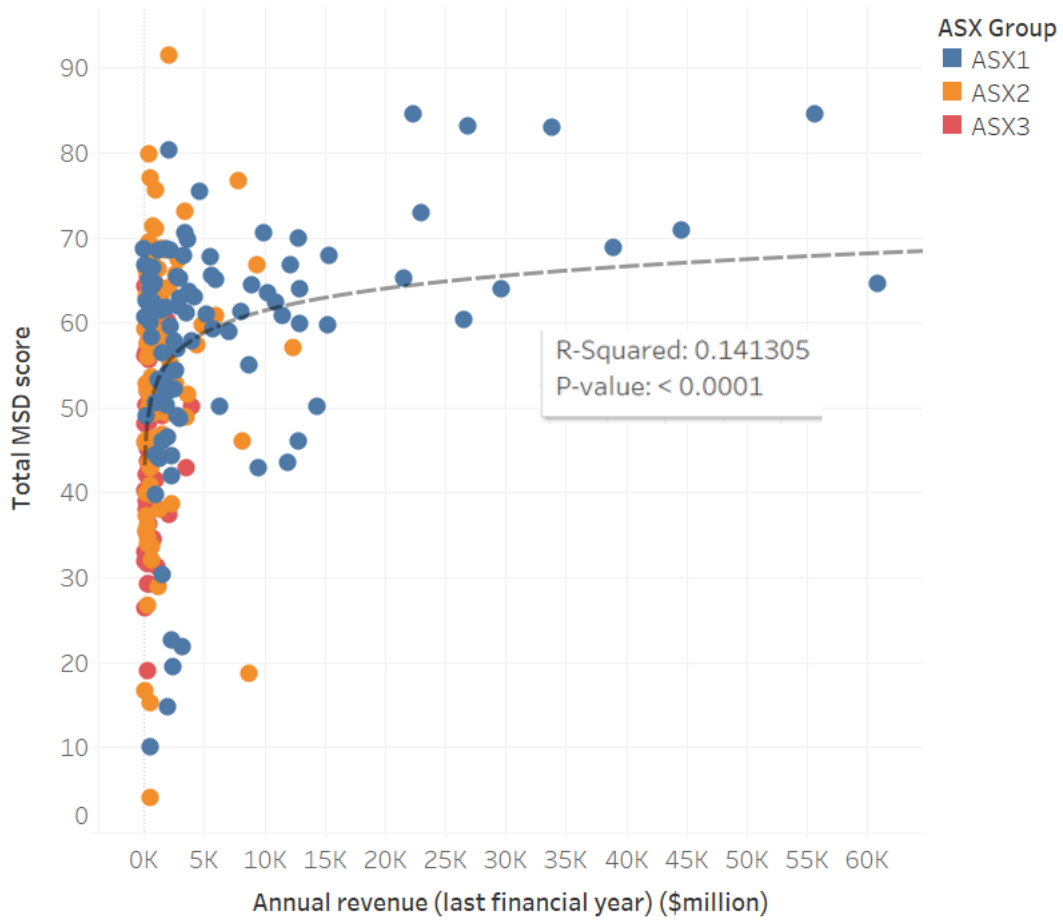

Figure 10: Relationship between size and modern slavery disclosure scores

Sectoral analysis of disclosure quality

A breakdown of the MSD sub-scores between industry sectors produces some instructive results.

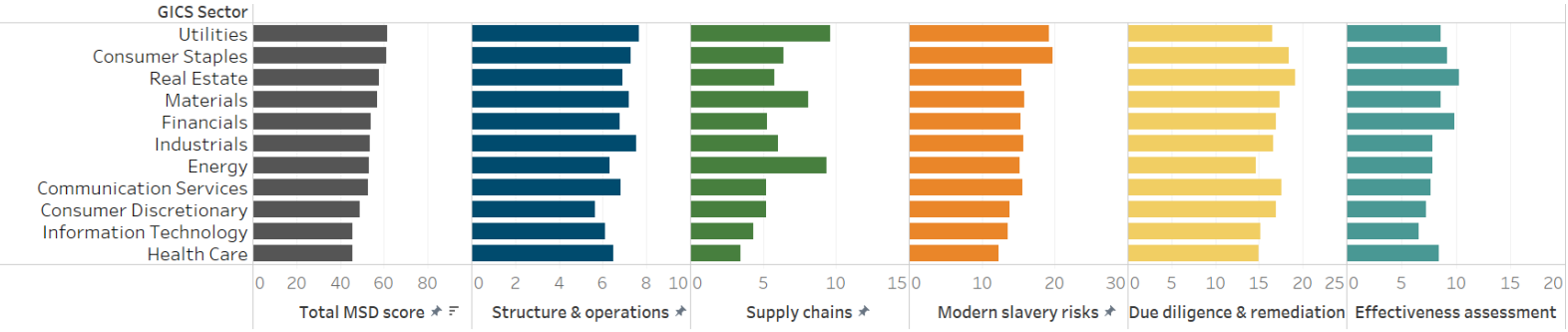

Figure 11: MSD scores and sub-scores by sector – ASX300 firms

On average, utilities, consumer staples and real estate were the top three sectors for MSD scores. Health care firms ranked lowest, due in part to poor scores for their descriptions of supply chains and modern slavery risks.

The largest variation in scores between sectors was observed for category two disclosure on supply chains, with utilities and energy leading the pack, and health care lagging. Sub-scores for the other four disclosure categories were less variable.

There were some other notable differences between industry sectors in some disclosure categories. While firms in the utilities and consumer staples sectors scored well on disclosure of modern slavery risks, real estate and financial firms, including banks and investment companies, scored well on how they assess the effectiveness of their modern slavery risk management.

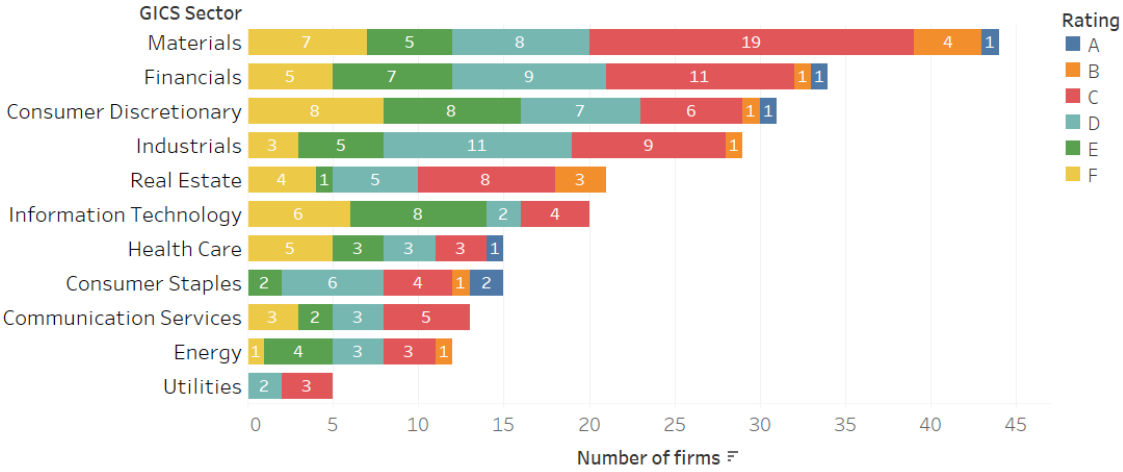

Figure 12: The number of ASX100 companies in each MSD quartile

Further analysis of the results (shown above in Figure 11) reveals materials as the sector with the most A or B-rated statements (5). By contrast, not one firm in the communication services, IT or utility sectors received an A or B rating. Further, more than half the statements from firms in consumer discretionary, IT, health care and consumer staples sectors scored below 50 per cent, translating to either E or F ratings.

Prevalence of modern slavery risks

The guidance document of the Act identifies eight specific types of exploitation that may constitute modern slavery:

- human trafficking
- slavery
- servitude
- forced marriage
- forced labour
- debt bondage
- deceptive recruiting
- the worst forms of child labour.

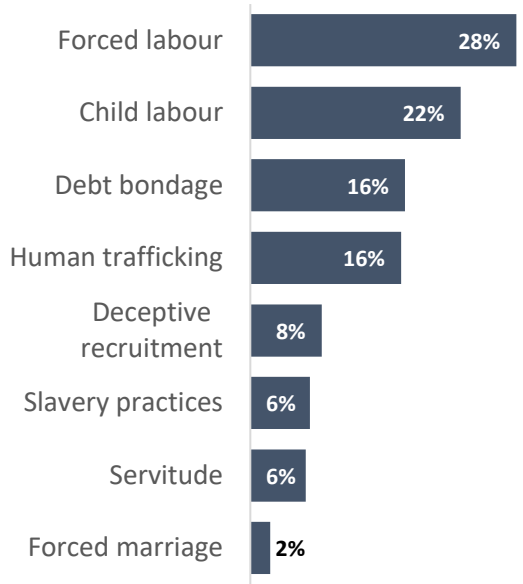

Figure 13: Prevalence of modern slavery risks

Our scoring model allocates extra points to firms that go beyond general descriptions of their modern slavery risks with detail on specific types of risks that apply to their situations.

By combining information from various statements about the specific types of risks reported, we were able to discern the types of risks that are more prevalent for firms in each sector.

Not all statements reported specific types of modern slavery risks.

Where companies disclosed specific types of modern slavery risks in their operations and/or supply chains, we also recorded whether the level of that risk was assessed as high (H), medium (M) or low (L). In cases where the risk was acknowledged without a clear assessment level, it was noted as 'potential' (P). The results are summarised in the following table.

Table 3: Specific types of modern slavery risks reported by ASX300 companies

	No. of firms	Child labour				Debt bondage				Deceptive recruitment				Forced labour				Forced marriage				Servitude				Human trafficking				Slavery practices			
Potential/Low/Medium/High		*P*	*L*	*M*	*H*	*P*	*L*	*M*	*H*	*P*	*L*	*M*	*H*	*P*	*L*	*M*	*H*	*P*	*L*	*M*	*H*	*P*	*L*	*M*	*H*	*P*	*L*	*M*	*H*	*P*	*L*	*M*	*H*
Communication Services	13					1		1		1				2												2							
Consumer Discretionary	31	11				8		1		4		1		10		1	1					1				5		1					1
Consumer Staples	15	3		1		3			1	3			1	8		1		1	1			1	1			2	1			1		1	
Energy	12	2				2				1				2			1					1				1				1			
Financials	34	4				2								2				1				1				6				2			
Health Care	15	5				3				2				4								2				1							
Industrials	29	6				4			1					5			1					2				7				3			
Information Technology	20	1				3				1				4								2				3	1			3			
Materials	44	11	3			6	1			2				14	1			2				2				4				1			
Real Estate	21	4	1		1	1				2				7	1		1					1				2	1		1	1			1
Utilities	5								1								1																
TOTAL COUNT	*239*	53				39				18				67				5				14				38				15			
TOTAL in %		22.2%				16.3%				7.5%				28.0%				2.1%				5.9%				15.9%				6.3%			

Identifying and assessing specific types of modern slavery risks can be challenging, requiring a sophisticated risk assessment system. Companies that specified risk levels for each category – high/medium/low – did so based on their own assessment. This means that risk ratings cannot be assumed to be comparable between firms. For example, a particular modern slavery risk source could be rated 'high' by one firm and 'medium' by another, depending on the individual assessment criteria applied. Therefore, we did not differentiate between risk levels (H, M, L) in our sample-wide analysis of the prevalence of risks; we only considered whether the entity reported the specific types of risks.

Regardless of perceived *levels* of risk, the number of firms mentioning a specific type of modern slavery risk may indicate the prevalence of that risk within each sector. To explore this further, we developed a sectoral risk prevalence indicator based on the number of firms acknowledging specific types of risks in their statements as a proportion of the total number of firms in the sector.

The most common specific types of modern slavery risks reported by ASX300 companies across all sectors in their FY2020 statements were forced labour, child labour and debt bondage (see Figure 13).

Almost one third of companies reported forced labour as a risk in their operations and supply chains, while 22 per cent of statements reported child labour and 16 per cent cited debt bondage and human trafficking as risks.

Figure 13 highlights the prevalence of nominated specific risk types by sector. Forced labour, child labour and debt bondage were the most prevalent risks in the consumer staples, real estate, consumer discretionary, materials, energy and health care sectors. While financial and industrial firms reported human trafficking and child labour as the top two risks, utility companies reported debt bondage and forced labour.

Sector	Forced labour	Child labour	Debt bondage	Human trafficking	Deceptive recruitment	Forced marriage	Servitude	Slavery practices
Communication Services	15%		15%	15%	8%			
Consumer Discretionary	39%	35%	29%	19%	16%		3%	3%
Consumer Staples	60%	27%	27%	20%	27%	13%	13%	13%
Energy	25%	17%	17%	8%	8%		8%	8%
Financials	6%	12%	6%	18%		3%	3%	6%
Health Care	27%	33%	20%	7%	13%		13%	
Industrials	21%	21%	17%	24%	0%		7%	10%
Information Technology	20%	5%	15%	20%	5%		10%	15%
Materials	34%	32%	16%	9%	5%	5%	5%	2%
Real Estate	43%	29%	5%	19%	10%		5%	10%
Utilities	20%		20%					

Figure 14: Risk prevalence indicators by sector

It should be noted that our risk prevalence indicators are based solely on what was cited in the risk analysis sections of modern slavery statements – to the exclusion of any actual instances of modern slavery that may have occurred or been reported. Our indicators may also underestimate the true level of risk prevalence due to many companies in the sample group not citing specific types of risks.

Consistent with other parts of our analysis showing a positive correlation between firm size and modern slavery disclosure, Figure 14 (below) shows that more firms in ASX1 and ASX2 groups reported specific types of risk than ASX3 firms.

GICS Sector	Forced labour risk ASX1	Forced labour risk ASX2	Forced labour risk ASX3	Child labour ASX1	Child labour ASX2	Child labour ASX3	Debt bondage ASX1	Debt bondage ASX2	Debt bondage ASX3
Communication Services	1	1	0	0	0	0	2	0	0
Consumer Discretionary	4	3	5	3	4	4	4	1	4
Consumer Staples	3	4	2	2	2	0	2	2	0
Energy	2	1	0	2	0	0	2	0	0
Financials	1	1	0	3	1	0	1	1	0
Health Care	3	0	1	3	0	2	3	0	0
Industrials	2	2	2	3	2	1	2	2	1
Information Technology	1	1	2	0	1	0	1	1	1
Materials	9	4	2	10	2	2	4	2	1
Real Estate	2	6	1	1	5	0	1	0	0
Utilities	1			0			1		

Figure 15: Specific modern slavery risks within groups of ASX firms

The value of policies and processes

Figure 16: Types of policies and processes disclosed in the statements

In our modern slavery disclosure scoring system, we awarded points for disclosing policies relevant to the governance of modern slavery risks in category four. Policies and processes underpin the effectiveness, or otherwise, of an organisation's response to and management of its modern slavery risks. The guidance document of the Act emphasises the need for organisations to develop tools and policies to monitor areas of risk in their operations, identify high-risk suppliers and mitigate associated risks. It also recommends that organisations regularly review and improve policies and processes and ensure such changes are communicated well to relevant stakeholders.

Companies across our ASX300 sample group cited a wide range of internal policies and policy types relevant to managing their modern slavery risks (see Figure 16). Among the more common examples were codes of conduct, supplier codes of conduct, ethical sourcing, responsible procurement, human rights, modern slavery (specific) and training.

TRIANGULATING MSD AND OTHER ESG DISCLOSURE SCORES

We triangulated the MSD scores for ASX300 companies with some selected social disclosure and ESG disclosure scores (see Table 4) provided by Bloomberg and Institutional Shareholder Services (ISS). The objective of the triangulation analysis was to see whether there is a correlation between our MSD scores and these other ESG-related scores. Our underlying hypothesis is that companies with high ESG/sustainability scores are more likely than others to be concerned about their modern slavery risk exposure, and that this will be reflected in their disclosure levels.

Table 4: Other social disclosure scores of firms in Grades A – F of modern slavery disclosure quality rating (Data source: Bloomberg)

	Modern Slavery Disclosure Quality Rating					
	A	**B**	**C**	**D**	**E**	**F**
Bloomberg ESG Disclosure Score	48.7	51.91	41.89	36.21	28.49	26.81
Bloomberg Social Disclosure Score	48.42	52.76	45.19	39.76	33.17	32.93
ISS Quality Score (1=best, 10=worst)	3.67	4.33	3.89	4.58	5.42	5.77
RobecoSAM Total Sustainability Rank score	79	73.09	54.59	41.21	33.8	36.46
Sustainalytics ESG Risk Score (0=lowest risk)	21.04	25.25	21.58	23.13	20.35	24.52

Note: Bloomberg ESG and Social Disclosure Scores range from 0 (min) to 100 (max).

We observed significant positive correlation between our MSD scores the ESG disclosure and social disclosure scores, sourced from Bloomberg, as of 31 October 2021 (see Figure 17). The trend lines with a positive slope in both panels of Figure 17 show that firms with high social or ESG disclosure scores tended to have high MSD scores.

MSD scores also exhibited strong correlation with the ISS Quality Score and RobecoSAM Total Sustainability Rank score, as shown in Table 4. The triangulation analysis showed us that firms generally ranked well in sustainability and disclosure tended to also score well on their modern slavery statements.

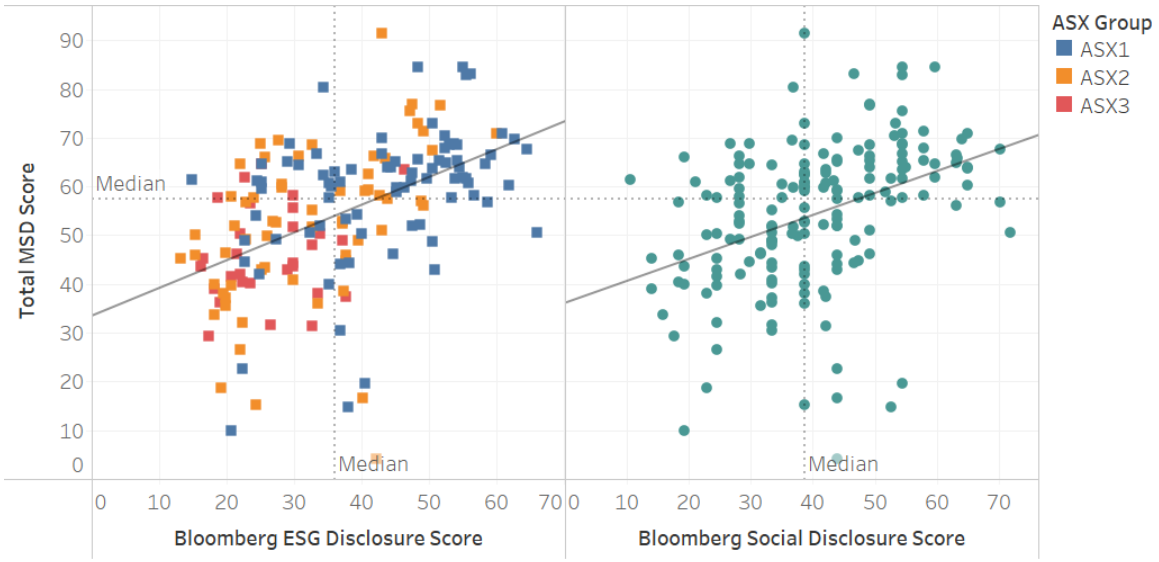

Figure 17: Plotting MSD scores against Bloomberg's Disclosure Scores

KEY RECOMMENDATIONS

For companies	For investors	For regulators
Scoping of risk should be clear and the assessment of modern slavery risk should extend to specific types of risks. Exposure to modern slavery risk should be assessed based on the demographics of the suppliers, economic size of supply spend and the nature of the transactions. Due diligence and remediation processes need to be strengthened. The reporting entity should describe how it assesses the effectiveness of modern slavery risk management in terms of who is responsible, what to assess, and how/how often it will be. Engagement and education of suppliers is the key to mitigating risks in the supply chain. Companies should focus time and resources on areas of possible influence rather than areas of general concerns. Case studies or examples help illustrate specific risks and how the company has identified incidences and addressed them. Collaboration with peers and engagement with investors and regulators is encouraged to leverage possible influence and learning.	Investors should engage with portfolio companies in the following areas: • Improving the disclosure quality of modern slavery statements • Communicating investors' concerns about specific areas of modern slavery risk relevant to each company or sector • Enhancing companies' due diligence and remediation processes • Ensuring that the ultimate responsibility to oversee modern slavery and human rights risks belong to the board. • Recommending best practices for modern slavery disclosure Investors should also continue to play a proactive role in engaging with regulators to ensure investors' and companies concerns are considered.	The Government should strengthen the Act and harmonise the reporting requirements under the Commonwealth and New South Wales laws. The timeliness of the release of the statements submitted on the register needs to be improved. Despite the clear prescription of seven mandatory reporting criteria, reporting quality in 2020 statements was highly variable. Regulators need to review the quality of the modern slavery statements submitted and provide more reporting guidance to ensure greater consistency. More guidance is particularly needed to help companies to improve their remediation mechanisms and processes. The Government should adopt a holistic approach, incorporating the reporting requirements, compliance monitoring and non-compliance consequences. The Government should continue to engage with companies and investors.

LOOKING AHEAD

In line with Monash University's strategic priorities in education and research – including its strong focus on global issues relating to geopolitical security – the Monash Centre for Financial Studies is committed to extending its research into the increasingly important field of ESG and its impacts on industry and investor communities. To this end, MCFS has planned to carry out an annual assessment of the disclosure quality of modern slavery statements submitted by ASX300 companies.

After the release of our initial research brief in August 2021, and extensive follow-up engagement with companies and investors, we will introduce some changes to the timing of our research reports and the scoring methodology for the next phases of the research program, while retaining core elements.

Reporting frequency

In future, we plan to have multiple releases of disclosure quality assessments aligned to the various reporting deadlines for ASX300 companies. This change is primarily in response to feedback from ASX100 companies about the different needs of companies that follow the financial year financial reporting cycle and those that operate on a calendar year.

For FY2021, we will score statements and release findings on the timetable detailed in Table 5.

Revised questions and scores

For the assessment of FY2021 statements, the overall scoring framework – including the five disclosure categories and their weighting – will remain the same. However, we will introduce several minor revisions to individual checklist items and their scoring. The planned changes are detailed below in *Table 6*.

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Table 5: Reporting dates and planned MSD release times

Entity's reporting period	Statement due date	MCFS indicative reporting date
1 July – 30 June (Australian financial year)	31 December 2021	March 2022
1 January – 31 December (calendar year)	30 June 2022	September 2022
1 April – 31 March (foreign financial year – including UK and Japan)	30 September 2022	December 2022

Table 6: Planned changes to the disclosure checklist

Disclosure category	Indicator	Explanation	Change to points allocated
Category 1	Word count	A standardised score against the whole range of values observed in the sample will be replaced by a score based on an absolute conversion scale.	No change
Category 3	Risk scoping basis	This is a new indicator. We examine if the statement provides clear information on how the reporting entity has conducted the initial risk scoping process, based on the sector and industry, products and services procured, geographical locations, and/or entity risks.	0 → 8 points
	Specific types of modern slavery risks	This indicator was a standardised numerical score. It will now be a yes/no indicator.	5 → 3 points
	Risks potentially caused by/ contributed to/linked to the company	No change to the questions and indicator type (yes/no), but fewer points allocated	12 → 6 points
	Risk model or tool for supplier risk analysis	This is a new indicator that considers if the reporting entity describes the risk model or tool that it uses to conduct risk analysis of suppliers.	0 → 2 points
	Use of a consultant or an external advisor	This indicator previously attracted 4 points.	4 → 2 points
Category 4	Due diligence	This is an existing disclosure item that retains the same number of total points, but to which we are introducing specific scoring elements, including: - The overall governance framework - Due diligence when engaging new suppliers, ongoing monitoring, suppliers surveyed, suppliers audited - Adding human rights clauses to contracts	5 → 5 points
	Remediation	This is also an existing item that retains the same total points allocation, but with the introduction of specific scoring elements, including: - Privacy and confidentiality - Accessibility of remediation channels - Following up	5 → 5 points
	Training	As with due diligence and remediation (above) this is an existing disclosure item that retains the same number of points, but with specific scoring for the following elements: - Training for employees and management - Training for suppliers - Disclosure of the number of people trained	5 → 5 points
Category 5	KPIs	This existing item retains the same number of points, but with new specific scoring elements including: - Training-related KPIs - Supplier audit-related KPIs - Remediation-related KPIs - An action plan	5 → 5 points

CONCLUSION

With the completion of the first annual cycle of modern slavery statements under a new national legislative regime, Australia now has legitimate claims to be a global leader in tackling the international scourge of modern slavery. Australia's Modern Slavery Act (2018) is not only among the first mandatory national schemes to be introduced for large companies and other organisations, but is among the strongest, with more prescriptive reporting and disclosure requirements than other international predecessors.

However, as our detailed analysis of Australian modern slavery statements reveals, there is a considerable gap between the aspirations of the law and the reality of how corporate Australia approached the issue on its first attempt in FY2020. While a handful of the nation's biggest companies revealed exemplary efforts to address modern slavery in their inaugural statements, many others barely complied with the basic requirements of the law. Disparities in the quality of inaugural modern slavery statements were clearly apparent in our first review focusing on the largest 100 listed companies (ASX100). When we expanded the scope of the project to include modern slavery statements by the largest 300 companies (ASX300), we found the average quality level declined – from an already modest base.

To be fair, monitoring and mitigating modern slavery risks is still a relatively new requirement for Australian companies – and involves considerable expense. Some big companies had pre-existing internal processes and policies to deal with their potential exposure to human rights issues. Not surprisingly, such companies tended to perform well on our modern slavery statement scoring. Others were clearly less prepared.

The research results also revealed a clear divide between the performance of the biggest ASX100 companies and smaller firms in the lower reaches of the ASX300, with modern slavery statements by the latter group typically attracting lower ratings under our revised A-F scoring system. This may in part, if not largely, reflect the fact that superior resourcing of larger companies makes them more able to afford sophisticated processes to deal with their modern slavery risks.

Companies and other entities subject to the requirements of the Modern Slavery Act (any organisation with an annual turnover exceeding $100 million) are now well into the second annual period for which they will be required to produce a modern slavery statement. Positive feedback from companies and institutional investors to our initial research, reported in August 2021, suggests there is a strong appetite among big companies to improve on their initial attempts and take their legal obligations to tackle modern slavery risks seriously. Through this research project, we aim to make a positive contribution by adding to the understanding of companies and the broader investment community about their obligations. To this end, we plan to conduct ongoing annual reviews of modern slavery statements by ASX300 companies, albeit with a few tweaks to our methodology. Nevertheless, there is much work to be done.

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APPENDIX 1: SCORING QUESTIONS

	Sub-index name	Sub-index Weight	Mandatory reporting criteria	No. of indicators	Indicators within each sub-index	Type of indicator	Sub-index weight (%)
1	Description of overall structure and operations	10%	Criterion 1 Criterion 2 Criterion 2 Criterion 2 Criterion 6 Criterion 7	7	Word count Structure of the reporting entity(ies) Major sites and locations The number of employees Key inputs/indicators The consultation process among affiliated entities Discussion of any other relevant matters (example: COVID-19)	Numerical Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No	2 1 2 1 2 1 1
2	Description of supply chains	15%	Criterion 2	6	The number of suppliers Total supply spend (in dollars) The number of suppliers by direct/indirect (or by tier 1,2) The number of suppliers by country or region Supply spend by country or region Supply spend by major spend category	Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No	2 2 3 3 3 2
3	Description of risks of modern slavery in operations and supply chains	30%	Criterion 3	7	Having a designated team for modern slavery and/or human rights issues Using an independent consultant or external expert The assessment of the overall modern slavery risks The number of specific types of risks reported by the reporting entity Identification of risks in operations and/or the supply chains possibly caused by the reporting entity Identification of risks in operations and/or the supply chains possibly contributed to by the reporting entity Identification of risks in the operations and/or the supply chains possibly related to the reporting entity	Yes/No Yes/No Yes/No Numerical Yes/No Yes/No Yes/No	4 4 5 5 4 4 4
4	Description of due diligence and remediation processes	25%	Criterion 4	5	Description of due diligence processes Description of remediation processes The number of specific policies disclosed Description of supplier assessment resources Modern slavery training conducted (for employees and/or suppliers)	Yes/No Yes/No Numerical Yes/No Yes/No	5 5 5 5 5
5	Description of effectiveness assessment	20%	Criterion 5	4	Description of how the firm assesses the effectiveness of these actions Specific KPIs provided Collaboration with 3rd party on modern slavery Examples of specific actions and case studies provided	Yes/No Yes/No Yes/No Yes/No	10 5 3 2
	Total	**100%**		**29**			

APPENDIX 2: OTHER ANALYTICS

Appendix 2a: Summarised data

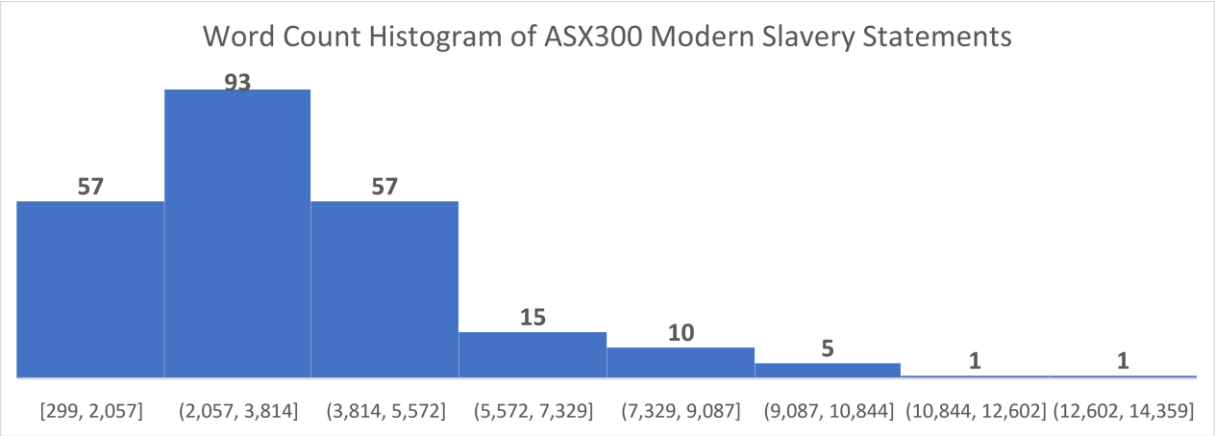
	Modern Slavery Disclosure Quality Rating					
	A	**B**	**C**	**D**	**E**	**F**
Section 1 Structure & Operation	9	8	7	7	6	5
Section 2 Supply chains	10	10	8	6	5	3
Section 3 Modern slavery risks	26	20	18	17	13	8
Section 4 Due Diligence & remed	24	22	20	17	15	10
Section 5 Effectiveness assessme	16	15	11	8	6	4
Total Score	**84**	**74**	**65**	**55**	**45**	**30**

	Modern Slavery Disclosure Quality Rating					
	A	**B**	**C**	**D**	**E**	**F**
Y-1 Annualised total return	16.64	20.2	38.88	47.5	22.77	28.69
Y-3 Annualised total return	25.65	3.43	16.07	17.53	8.82	21.46
Y-5 Annualised total return	17.31	7.86	16.69	16.11	10.96	18.69
Y-10 Annualised total return	12.94	6.19	13.94	15.46	9.71	16.87
Revenue ($m)	23,808	8,364	5,214	2,614	1,880	960
Net Sales - 5 Yr Geo Growth rate (%)	4.6	0.87	6.4	13.24	15.93	12.49
EPS T12M ($)	1.73	1.21	0.6	0.57	0.22	0.45
Diluted EPS 5Y Geometric Growth (%)	22.83	-1.01	18.14	7.72	7.7	14.77
Dividend 12M Yield - Gross (%)	9.44	6.17	4.8	3.72	4.25	3.54
Divident Net 5Yr Growth (%)	16.45	6.9	5.12	6.44	0.6	6.17
ROE (last financial year) (%)	27.34	32	10.12	10.18	9.97	15.32
ROA (last financial year) (%)	11.36	13.41	6.04	4.26	4.8	7.64
5Yr Average ROE (%)	18.48	14.79	11.81	9.32	13.8	17.4
5Yr Average ROA (%)	8.35	6.94	6.31	4.53	7.6	9.4

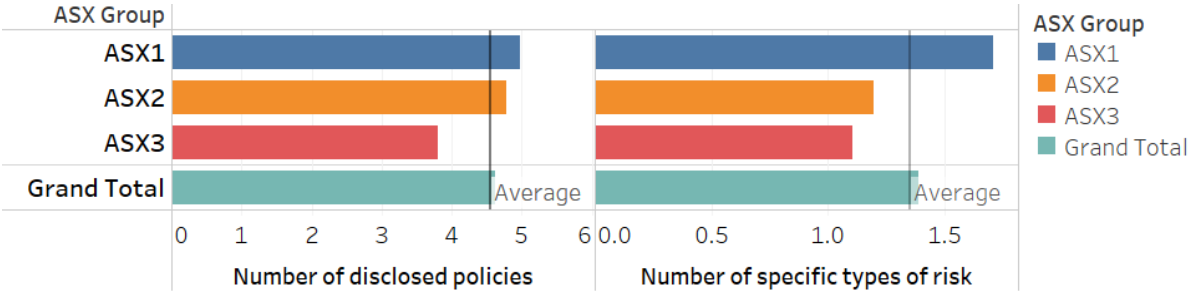
Data source: Bloomberg, as of 31 Oct 2021. Policies' data is the number of firms reporting the policy in each quartile. Other values are reported as median.

Appendix 2b: Wordcount histogram

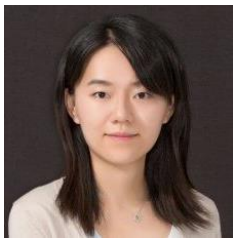
	Modern Slavery Disclosure Quality Rating					
	A	B	C	D	E	F
Word count (words)	8,356	6,930	4,746	3,210	2,450	1,723
Number of risks discussed	5	3	2	1	1	0
Number of specific policies	7	6	5	5	4	3



Appendix 2c: The number of relevant policies disclosed in the statements



MCFS RESEARCH TEAM



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