



The Investor Case for Mandatory Human Rights Due Diligence

When done responsibly, business activities can be a driving force for prosperity and inclusive economic development, helping to achieve the urgent vision laid out by the 2030 Sustainable Development Agenda. Yet, far too often, businesses of all sectors and sizes may harm human rights wherever they operate, fueling a global environment where people's fundamental welfare and dignity remain under threat.

The undersigned investors, representing \$XXX in assets under management, believe that all business actors have a responsibility to respect human rights and that the process of continuously conducting human rights due diligence is a core requirement for all companies – regardless of size, sector, or location – in fulfilling that responsibility. We also believe that governments have a duty to protect against human rights abuse by business enterprises through effective regulatory measures, particularly where voluntary corporate measures continue to leave significant gaps in human rights protections.

We therefore call on all governments to develop, implement, and enforce mandatory human rights due diligence requirements for all companies headquartered or operating within their own jurisdictions or, where appropriate, to further strengthen these regulatory regimes where they already exist.

Companies have long engaged with the concept of due diligence through investigative processes that aim to identify financial risks associated with business transactions. Human rights due diligence is a continuation of those established risk management processes that takes the lens of risk to people, recognizing that where there are the most severe (i.e. salient) risks to human rights, there are material risks to business, including reputational harm, financial loss, and legal liabilities.

The [UN Guiding Principles on Business and Human Rights](#), the authoritative global framework on business and human rights, defines human rights due diligence as an ongoing and iterative process to identify, prevent, mitigate, and account for how a company addresses the most severe risks to people in connection to its business.

The core steps of human rights due diligence include: (1) assessing the actual and potential human rights impacts that may be caused by a business or to which it may contribute or be directly linked through its business relationships; (2) integrating and acting upon those findings; (3) tracking the effectiveness of those actions; and (4) publicly communicating the company's human rights policies, practices, and outcomes. Companies are also expected to develop and embed human rights policies across the business, enable remedy when impacts occur, and engage with stakeholders throughout all due diligence activities.

As members of the investment community, we urge governments to require companies to undertake robust human rights due diligence processes as this type of regulation is:

1. Materially good for business, investors, and the economy;
2. Essential in creating uniformity and efficiency as an increasing number of governments are already taking this step; and
3. A necessary component for investors to fulfill our own responsibility to respect human rights.



1. Mandatory human rights due diligence is good for business, investors, and the economy.

Put simply, mandatory human rights due diligence makes good business sense for companies, investors, and governments alike. This type of regulation increases the robustness of corporate risk management processes, helps investors achieve higher risk-adjusted returns,¹ and [contributes to economic growth](#). Positive performance on human rights and proactive management of risks to people can attract [investment and procurement opportunities](#) for both companies and governments.

Further demonstrating the business case, institutional investors and business associations have explicitly supported a number of mandatory human rights due diligence developments. For example:

- In June 2019, the National Council in Switzerland voted to support a bill introducing a broad mandatory human rights due diligence regime that received backing from [five major Swiss business associations](#) and [a group of 23 institutional investors representing over US\\$4 billion in assets under management](#);
- In December 2018, more than 70 large Dutch pension funds with combined assets of almost €1.2 trillion [signed a covenant](#) with civil society organizations, trade unions, and the Dutch government committing to worldwide cooperation aimed at promoting sustainable investment based on respect for human and labor rights;
- Investors representing over US\$4 trillion assets under management filed multiple [statements](#) in support of the Australian Modern Slavery Act in 2018, which is an issue-specific iteration of a this type of regulation that primarily focuses on reporting; and
- In late 2018, investors representing over US\$5 trillion in assets under management [called on the U.S. Securities and Exchange Commission](#) to mandate corporate disclosure of ESG, including human rights information, which is a critical human rights due diligence step.

Conversely, failure to conduct proper human rights due diligence can impose [significant costs on companies](#) and, as a result, on their investors. Meaningful and ongoing human rights due diligence can help protect companies against costly litigation processes and settlements, high employee turnover rates, consumer boycotts, and other business risks. A lack of requirements in this area for companies is also bad for governments, as [public trust](#) in government institutions is increasingly eroded by harmful business activities that remain unregulated and unchecked.

2. Investors and companies require a level playing field as mandatory human rights due diligence regimes continue to develop world-wide.

The tide of government action on human rights has strongly turned toward this type of regulation,² and many large multinational corporations already conduct human rights due diligence under emerging

¹ There is an increasingly wide range of research documenting the correlation between corporate attention to human rights and broader ESG issues and corporate financial performance. See, for example, [Money, Millennials, and Human Rights](#) and [Cracking the ESG Code](#).

² For updated information on national mandatory human rights due diligence legislative initiatives, see the [Business & Human Rights Resource Centre's dedicated mandatory HRDD portal](#).



regulations.³ For example, [France](#) has already enacted a comprehensive mandatory human rights due diligence law, [Switzerland](#) has taken important steps toward a similar initiative, [Finland](#) has committed to pursuing its own initiative, and similar deliberations are ongoing in [Denmark](#) and [Norway](#). Moreover, [Austria](#), [Germany](#), and the [United States](#) have recently introduced this type of legislation. On the critical step of disclosure, over 20 countries to date have independently passed legislation that requires reporting on human rights and broader ESG issues, including issue-specific requirements in [Australia](#) and the [United Kingdom](#) on modern slavery risks and in the [Netherlands](#) on child labor risks.

Governments across the globe continue to introduce and implement mandatory human rights due diligence regimes, including those that apply to [export credit agencies](#), [sovereign wealth funds](#), and [development finance](#). As such, companies and investors alike require policy coherence and a leveling of the playing field, where consistent expectations across sectors and geographies allow for more efficient and predictable risk management throughout complex value chains and investment portfolios.

3. Mandating companies to perform human rights due diligence enables investors to fulfill our own responsibility to respect human rights.

Like all business actors, investors have a responsibility to respect human rights under the UN Guiding Principles, as well as the [OECD Due Diligence Guidelines for Multinational Enterprises](#).

In order for investors to practically conduct our own human rights due diligence under these and other emerging expectations, companies must undertake robust processes themselves. Investors can be connected with adverse impacts by funding companies or projects linked to human rights abuses.⁴ Financial reporting and voluntary risk assessment processes fail to warn investors of such risks. Proper and comprehensive human rights due diligence by companies, including mandatory and meaningful disclosure, enables us to identify the greatest risks to people in our portfolios and make more informed and responsible investment decisions. These types of processes also facilitate accountability tools that help investors answer increasing demands from beneficiaries regarding whether their money is being managed in line with their values.

The investor responsibility to respect human rights is becoming increasingly [recognized by investors themselves](#), as well as national governments, and enshrined in international and regional standards. For example, in March 2019, the European Parliament and European Union member states adopted a set of [sustainable investment disclosure rules](#), responding in part to “the impact of ESG events on the value of investments.”⁵ These rules require financial market participants and advisors to integrate ESG risks, including human rights risks, into their risk assessment and decision-making processes and disclose

³ For example, companies such as [Adidas](#) have moved beyond analyzing the implications of mandatory human rights due diligence to focus on practical, effective, and comprehensive human rights due diligence strategies.

⁴ For example, investors have been implicated in and suffered financial loss from [harms to Indigenous Peoples in the United States](#) and [conflicts with communities impacted by the extractive sector](#).

⁵ Led by the Investor Alliance for Human Rights, investors representing \$1.9 trillion assets under management signed the [Making People Work for People and Planet](#) statement in April 2019, which supported this type of regulatory development and called on investors to conduct their own human rights due diligence.



adverse impacts on people and planet connected to their finance and investment activities. The [OECD has also called on institutional investors to carry out their own due diligence](#) to not only avoid financial risk, but also to prevent and mitigate adverse impacts on human and labor rights, the environment, and corruption in connection with their investment portfolios.

Grave human rights abuses linked to business activities unfortunately persist each day, and government leadership on mandatory human rights due diligence is necessary to address the resulting risks to people and the convergent risks to business, investors, and national economies. Investors are ready to embrace our responsibility to respect human rights and do our part to meaningfully and urgently address these risks. We now need governments to compel companies to do the same.

Signatories:

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