



Green Technical Advisory Group



GTAG: Advice on the development of a UK Green Taxonomy



Preface

Since its establishment in June 2021 the Green Technical Advisory Group (GTAG) has been scrupulously working through how best to advise the UK Government on the design and implementation of a UK Green Taxonomy. The discussion has been robust – steeped in deep thinking and analysis around a series of complex and interlinked usability issues.

The paper we publish today summarises the first tranche of our advice, focusing on four key themes. How to approach onshoring the EU framework, on which the UK Green Taxonomy is based, at a time when the UK Government has set out a policy ambition to move further, faster than the EU in some areas of climate action; optimising the taxonomy's international interoperability, given 80% of UK-managed assets are invested in international capital markets; streamlining Do No Significant Harm to be usable and useful for reporting entities; and setting out wide range of potential taxonomy use cases.

As the Committee on Climate Change has made clear, the UK's net zero policy ambition is commendable, but the focus must now be on delivery. Directing capital to where it is needed most will be a key element of success in mobilising the extra £50bn that needs to go towards low carbon investment annually, from 2030 to 2050, to meet the **Sixth Carbon Budget** and in tackling greenwashing. The UK Green Taxonomy is a critical means to achieving this, through objectively setting out sustainable economic activities.



A robust and science-based Green Taxonomy for the UK will also ensure that the UK's globally focused financial sector, which has some of the deepest pools of internationally oriented capital, is well placed to take advantage of growth in the global green finance market, which has increased from \$5.2bn in 2012 to more than \$540bn in 2021.

The GTAG remains committed to its independent advisory role to UK Government and as Chair I look forward to leading the next stage of our work.

Ingrid Holmes
Chair, Green Technical Advisory Group

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Introduction



Background

In November 2020, then Chancellor Rishi Sunak set out the UK Government's ambition for the future of UK financial services, following the UK's departure from the EU.

As an already open, attractive, international financial centre, the Chancellor's plans sought to bolster this position by extending the UK's global leadership in green finance ahead of hosting COP26. Measures to support this aim included issuing the UK's first ever **Sovereign Green Bonds**, becoming the first country in the world to make **Task Force on Climate-Related**

Financial Disclosures (TCFD) disclosures mandatory and the implementation of a **Green Taxonomy** alongside the establishment of a UK **Green Technical Advisory Group (GTAG)** to review these metrics and ensure they are right for the UK market.

These measures were then followed by the launch of the **UK Infrastructure Bank (UKIB)**, in June 2021, which was tasked with accelerating investment into ambitious infrastructure projects, tackling climate change, cutting emissions and levelling up every part of the UK.



Each of these measures will also contribute to delivering other key climate policy initiatives, such as:

- **The Government's Clean Growth Strategy** (October 2017)
- **The 25-Year Environment Plan** (January 2018)
- **Green Finance Strategy** (July 2019)
- **The Ten Point Plan for a Green Industrial Revolution** (November 2020)
- **Energy White Paper** (December 2020)
- **Greening Finance: A Roadmap to Sustainable Investing** (October 2021)
- The Chancellor's plans for the UK to be the world's first **net zero-aligned financial centre** (November 2021)

GTAG: Advice on the development of a UK Green Taxonomy

This paper provides a summary of the research and analysis undertaken by GTAG in its initial phase of work, including its rationale and the independent, non-binding advice it has provided to the UK Government on the market, regulatory and scientific considerations for developing and implementing a UK Green Taxonomy. Further work completed over the last 15 months will follow before the end of the year.

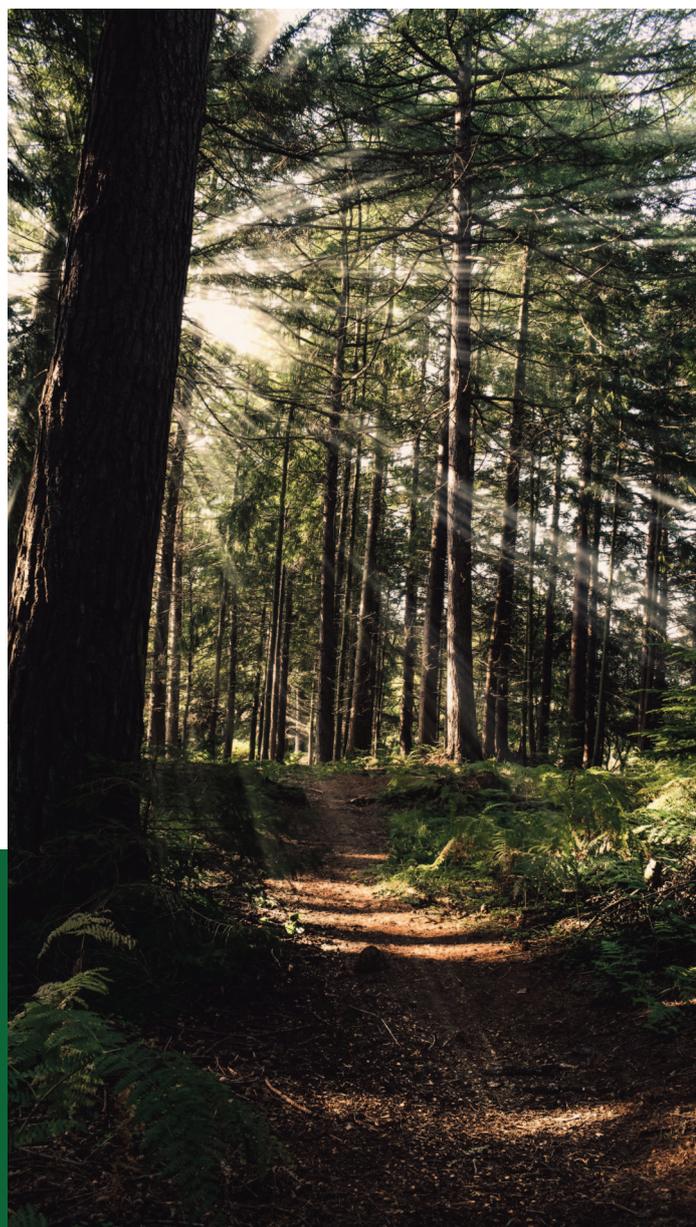
The paper is being published by GTAG prior to the release of the Government's anticipated public consultation on the Technical Screening Criteria (TSC) for the first two of the six environmental objectives included in the UK Green Taxonomy.

The Government's first consultation on the UK Green Taxonomy will be an important step forward in setting clear definitions of the economic activities and investments that can be defined as environmentally sustainable and thus help channel relevant UK-regulated firms' capital towards net zero-aligned and resilient investment, as well as addressing greenwashing.

GTAG's view is that the consultation will present an opportunity for the market and wider stakeholders to assess whether the draft UK Green Taxonomy TSC meet this test and submit responses as appropriate.

However, given recent governmental changes, GTAG recommends that Government should now give serious consideration to amending its original timeline, to enable full market consultation. This will ensure that when the UK Green Taxonomy is published for consultation, the amendments outlined in this paper and subsequent GTAG advice papers, regarding do no significant harm, missing TSC and more, can be fully addressed, and a best-in-class global taxonomy can be delivered. Such an amendment to the timeline should be communicated to the market as soon as possible.

In the interim period, starting with the release of this paper, GTAG intends to inform public and private debate on the value case for the UK Green Taxonomy and areas for improvement. It is GTAG's belief that wider industry engagement will be a critical component in delivering a robust framework for investments that can be defined as environmentally sustainable in the UK.



What is the UK Green Taxonomy and why is it needed?

The UK Green Taxonomy is a common framework for investments that can be defined as environmentally sustainable. It will improve understanding of the impact of firms' activities and investments on the environment and will support the UK's transition to a sustainable economy and the achievement of net zero goals in the UK.

Key aims of this initiative are to:

- Help tackle 'greenwashing', improve understanding of environmental impacts to help companies and investors make informed green choices, support investment in sustainable projects and boost efforts to tackle climate change.¹
- Clearly set out the criteria which specific economic activities must meet to be considered environmentally sustainable.²
- Enable better data to help companies, investors and consumers make informed green choices, support investment in sustainable projects and boost efforts to tackle climate change.³

The UK Green Taxonomy is an important step in Government's efforts to boost investment in projects that accelerate the transition to a sustainable economy, create green jobs and support the UK's environmental goals.⁴ These include:

- Supporting plans for the UK to become the world's first net zero-aligned financial centre, as announced at COP26.⁵
- Given that 2022 is the year private sector pledges and promises need to shift into implementation mode, the UK must ensure that investors deliver on their net zero commitments and create credible and measurable transition plans, while avoiding greenwashing. Best-in-class green financial standards are a key pillar to achieving this.⁶

¹ GFI Website and p.26 [Greening Finance Roadmap](#)

² p. 225 [Net Zero Strategy](#)

³ [Gov.uk](#)

⁴ [Gov.uk](#)

⁵ [Gov.uk](#)

⁶ [E3G letter](#)

⁷ p.26 [Greening Finance Roadmap](#)

Making the EU Taxonomy fit for purpose in the UK

Taking the scientific metrics in the EU Green Taxonomy as its basis, the UK Green Taxonomy will focus on the UK's specific net zero pathway, which differs from that of the EU. The implementation process will be guided by three core principles, outlined by the UK Government's Greening Finance Roadmap⁷:

1. It should be **robust and evidence-based**.
2. It must be **accessible**.
3. It needs to be **built for the UK to support a global transition**.

The UK has onshored the majority of the EU Taxonomy Regulation, which sets out the high-level design features of the Taxonomy in the UK. However, the Delegated Acts that include the TSC – the detailed criteria for significant contribution (SC) and do no significant harm (DNSH) for climate change mitigation⁸ and climate change adaptation⁹ – have not been onshored as they were introduced following the UK's exit from the European Union.

In addition:

- The UK has ambitious, legally binding carbon reduction targets of 78% reduction against 1990 levels by 2035 and net zero by 2050. Combined with the Committee on Climate Change's recommended carbon budgets, which the Government is legally obliged to achieve, and transition pathways, the UK has a clear path to net zero, which the Taxonomy should support by directing capital towards activities and investments that are aligned with these aims.
- The UK is developing its own TSC, starting with its climate change mitigation and climate change adaptation objectives. It is using the EU TSC as its foundation, which the UK supported in development while still a Member State.¹⁰
- Government has reviewed the EU TSC in developing the draft UK TSC and has signalled this will be consulted on. The TSC were drafted by Government, with the help of specific departments (e.g. Department for Business, Energy and Industrial Strategy (BEIS)) and working groups (e.g. Energy Working Group (EWG)¹¹).

⁸ EU Climate Change Mitigation Delegated Act

⁹ EU Climate Change Adaptation Delegated Act

¹⁰ EU Taxonomy Regulation

¹¹ Box 9, page 28, Greening Finance Roadmap

Approach to energy sector – the Energy Working Group

Reliable and affordable power and heat are an essential foundation of a modern economy and crucial to the potential future electrification of a range of sectors such as transport and industry as the UK transitions to net zero. It is therefore vital that the UK Green Taxonomy assists investors in identifying energy-related activities that will support the net zero transition. When developing the Taxonomy's energy criteria, the Government's approach will be science-based, accessible and aligned with its net zero policy.

Government established the EWG, chaired by the Chief Scientific Advisor to BEIS, to advise on the development of TSC in the energy sector. Members are independent of Government, with membership drawn from academia and expert organisations¹. GTAG helped to advise on the membership and setup, as well as its role as independent adviser on the Taxonomy. In addition, the GTAG Secretariat act as observers.”

¹ <https://www.gov.uk/government/publications/independent-expert-group-appointed-to-advise-government-on-standards-for-green-investment/energy-working-group-membership-list>

² <https://www.gov.uk/government/speeches/pm-speech-at-the-cbi-conference-22-november-2021>

GTAG members

GTAG originally provided advice to then Economic Secretary to the Treasury, John Glen MP. The UK Green Taxonomy has recently been added to the portfolio of Financial Secretary to the Treasury, Andrew Griffith MP. Membership of GTAG was designed to ensure it involved experts representing a range of stakeholders, including taxonomy users, experts on taxonomies and data, academics and non-governmental organisations (NGOs).

Ingrid Holmes from the Green Finance Institute (GFI) is the GTAG Chair, with GFI also the Secretariat for the GTAG. There are 18 original members and 4 ad-hoc members¹² including experts from financial and business stakeholders, taxonomy and data experts, academic subject matter experts, NGOs, the Environment Agency and the Committee on Climate Change. In addition, there are observers from HM Treasury, the Financial Conduct Authority, the Bank of England, BEIS, the Department for Environment, Food and Rural Affairs (DEFRA) and the Department for Work and Pensions (DWP). A full list of members can be found in the Annex.

Purpose

GTAG was set up to provide general advice on developing the taxonomy. Within the GTAG Terms of Reference, His Majesty's Government signalled that GTAG sub-groups could be established where appropriate for specific technical expertise on a given sector, involving additional subject matter experts¹³. EWG is an example of one such sub-group¹⁴.

In addition, workstreams have been created to cover more specific areas of advice, with each workstream chaired by an appropriate GTAG expert.

There are currently five GTAG workstream areas¹⁶:

1. Addressing UK-Specific Needs;
2. Usability and Data;
3. Policy Links;
4. Fully Realised Taxonomy;
5. International Interoperability.

Each workstream is led by an appropriate GTAG expert and more detail on what each workstream is providing advice on, and the Chair for each workstream, can be found in the Annex.

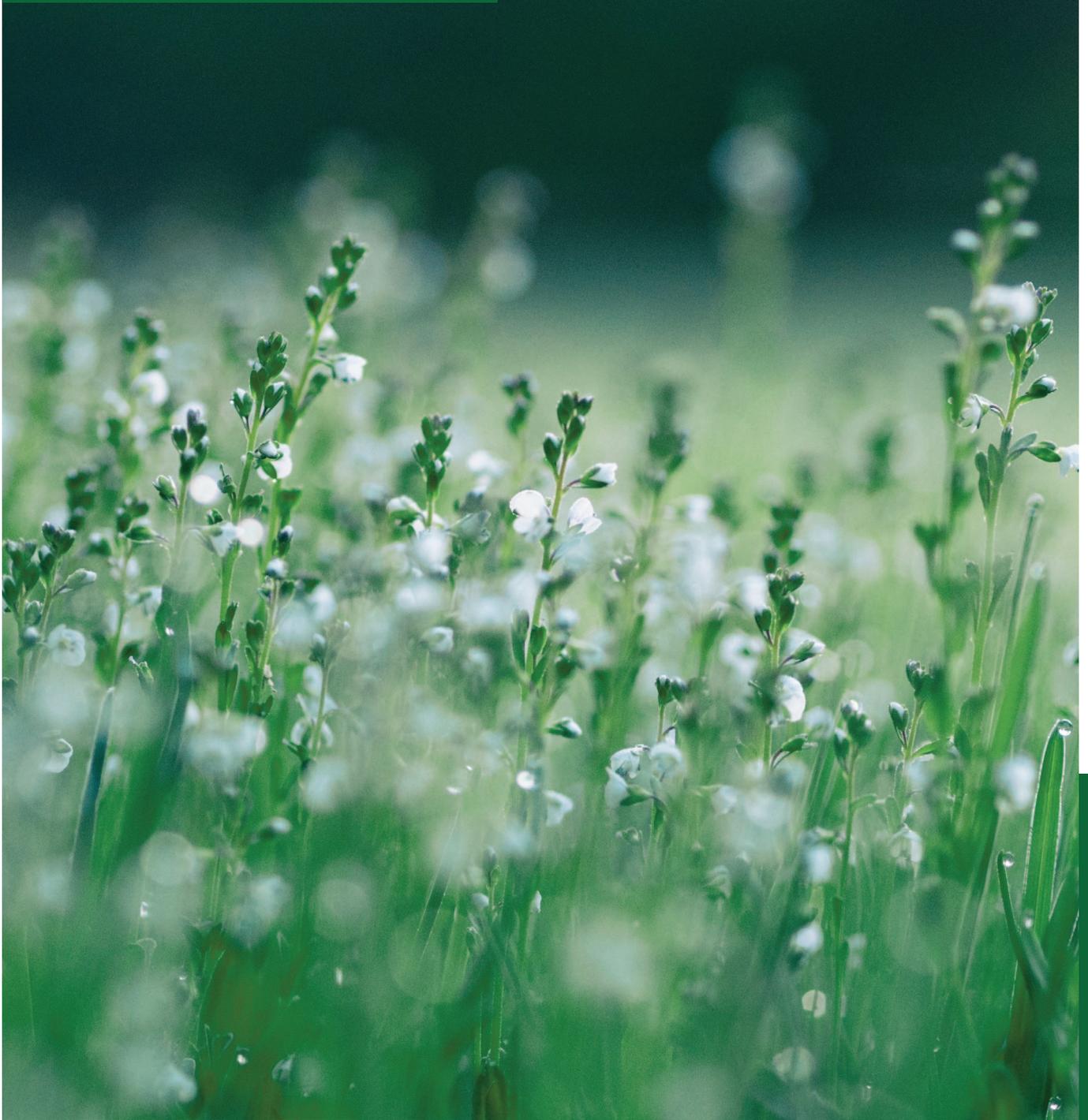
¹² [GFI Website](#)

¹³ [GTAG TOR](#)

¹⁴ [GTAG Operational Context](#)

¹⁵ [GTAG Workplan](#)

Advice on onshoring the EU TSC



Background

The EU and UK have similar but different greenhouse gas emission reduction trajectories. While the UK could onshore the majority of the EU Taxonomy Regulation, some of the EU Taxonomy Climate TSC, which include detailed criteria for significant contribution and do no significant harm for climate, were not onshored due to legislative timing (the UK had exited the EU when the Delegated Acts were introduced) and also may not be fit for purpose in the UK and are therefore being reviewed.

This means decisions were still to be made about the specific details of the TSC as well as their links to other regulatory measures, such as disclosure regimes. An initial Government process to review the EU TSC and identify where equivalent UK legislation or regulation can easily be substituted is being undertaken and is expected to be consulted upon in due course.

Meanwhile, the EU Taxonomy continues to evolve. The EU's Disclosures Delegated Act means that firms across Europe, including many in the UK, have made preparations to use and disclose against the EU Taxonomy. Since January 2022, financial and non-financial entities have been required to report their Taxonomy eligibility for the previous calendar year, i.e. the proportion of their activities for which there are TSC under the Taxonomy's climate change mitigation and adaptation requirements. Reporting on eligibility for the Taxonomy's other environmental objectives and alignment will follow from January 2023 onwards¹⁶.

In the meantime, the UK needs to send a rapid market signal to financial market participants, their regulators and companies as to how their preparations for EU Taxonomy reporting will work in a future UK market context. In other words, they need to know how the UK will adopt the EU TSC and what form any revisions will take to reflect UK-specific needs. A signal should be issued as soon as possible in order to ensure market certainty and a sense of continued relevance for the UK Green Taxonomy for market participants.

Any decision by the UK to diverge from the EU TSC will have potential benefits and risks:

- Benefits of divergence include the UK's ability to: ensure the integrity of the UK Green Taxonomy in terms of its coherence with other UK policies; respond to changing scientific and market information; reflect the high ambition of the UK's 2030 and 2035 targets and carbon budgets; and address some of the perceived flaws of the EU TSC, such as its complexity to implement and lack of relevance outside of Europe.
- Risks of divergence include: creating a fragmented regulatory landscape in which it is more difficult to achieve international norms and standards for net zero; and the potential loss of market influence in the event of competition between different jurisdictional standards.

Given the importance of striking this balance correctly, it is important for the UK to decide which approach to take when it comes to 'adopt versus revise' and also set out principles that will be used for any revision process.

This section looks at how GTAG advised UK Government on how to approach the onshoring of the EU Taxonomy, exploring the pros and cons of diverging from the EU Taxonomy and making recommendations regarding 'adopt versus revise'.

¹⁶ https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-article-8-report-eligible-activities-assets-faq_en.pdf



Summary recommendations:

- UK Government has a choice of whether to adopt the EU TSC in the short-term, and then revise them for consistency with UK policy at a later date, or to undertake a thorough revise-first process and only adopt the TSC subsequent to that revision process.
- GTAG recommended that the government should take the approach of ‘adopt some and revise some’.
- This approach builds on the GTAG view, confirmed by Government, that the priority focus of taxonomy use should be on investors and financial market participants, as well as their regulators. Since many UK financial market participants will also be subject to the EU framework, close alignment with the EU TSC would limit divergence and market fragmentation. However, a small number of TSC may be incompatible in the UK and therefore require urgent revision.
- This approach is complementary to the EU TSC review process undertaken by Government to identify where equivalent UK legislation or regulation can easily be substituted for the original EU reference points.

The ‘adopt some and revise some’ approach that GTAG recommended included the following elements:

- The majority of EU TSC should be onshored as soon as possible and adopted, subject to the substitution of equivalent UK legal and regulatory reference points for those which currently refer to EU legislation and regulation.
- A small number of EU TSC should be revised prior to adoption. These are TSC that stakeholders have identified as being problematic and thus need to be revised before adoption.
- This two-track approach should be accompanied by the publication of a roadmap and timetable for the onshoring process, which would set clear expectations for the market, including a date by which all UK TSC will have been specified, together with a clear roadmap regarding implementation.

Recommended revision process principles

GTAG further recommended that a set of principles is used to guide the UK's TSC revision process in the near-term and for ongoing future review needs. The top-line principles are that TSC should:

1. Avoid greenwashing and support economy-wide transition;
2. Be simple and usable; and
3. Be internationally relevant and consistent.

The application of these individual principles may at times lead to conflicting outcomes. For example, the principle of international relevance would point to alignment with other taxonomies wherever possible, whereas the principle of usability would point to the UK maintaining the ability to adjust TSC over time in light of technological change. Therefore, GTAG recommended that the principles have a hierarchy (in the order listed above), so that in the event of a clash it will be clear which principle dominates and should be followed.

More details on these principles can be found on page 14.

The UK Taxonomy is intended to be a dynamic tool that will evolve over time. Beyond the initial adopt / revise phase, an ongoing process to review and update the TSC will be necessary to ensure that the TSC continue to meet the UK's objectives and needs when it comes to a UK Green Taxonomy, as well as to integrate emerging best practices from other jurisdictions developing their own taxonomies. As part of this ongoing review process, consideration might be given to the following topics:

- Whether the sectoral coverage of TSC is appropriate for the UK economy;
- Whether the TSC appropriately reflect the UK's long-term, as well as intermediate, climate policy ambitions;
- Whether the TSC encourage economy-wide transition towards climate neutrality, including – where appropriate – transition activities;
- Whether the TSC are internationally relevant thereby supporting inward and outward investment.



The high-level principles set out by GTAG could also serve to guide such a process. However, some of the questions may imply changes to the Taxonomy Regulation itself rather than the TSC alone. For example, the inclusion of a broader definition of transition or any substantial changes to the DNSH and minimum safeguard requirements would likely require changes to the Taxonomy Regulation.

GTAG advice

Identifying revisions

GTAG recommended that Government pursues an ‘adopt some and revise some’ approach to reviewing the EU TSC and should provide clear time-bound expectations for market actors about the development and finalisation of the UK Green Taxonomy, as well as pragmatic implementation guidance to mitigate some of the complexities of the EU TSC.

The small subset of the EU TSC recommended by GTAG for revision, prior to adoption, were identified as being problematic because either they don’t align with the UK’s net zero strategy, or they represent significant challenges for implementation.

In order to reach a final list of TSC in a reasonable timeframe, the list should be limited to those which are very problematic, as marginal cases will be the most contentious and time-consuming with the least benefit. Such revisions relate to:

- Activities where the EU thresholds are inconsistent with the UK’s net zero objective, potentially including: renovation of existing buildings, shipping, forestry, bioenergy, manufacture of hydrogen, restoration of wetlands.
- Activities where equivalent UK legislation is absent and therefore cannot be readily applied in the UK, including sectors such as chemicals (in relation to DNSH criteria).
- Absence of certain activities, including agriculture and fisheries.
- Climate change adaptation TSC in general require a more detailed review. More details on GTAG’s advice on climate change adaptation can be found on page 32.

GTAG recommended that the final list of revisions should be communicated via public consultation and could be refined accordingly.

GTAG also recommended that Government communicates this plan clearly to market actors, publishing a roadmap, including an approach and timetable for the TSC adoption process, which sets clear expectations to the market on the role and purpose of the UK Green Taxonomy and the next steps for implementation, including a date by which the UK TSC will be specified.

Principles for TSC onshoring

In reviewing the EU TSC and deciding whether to onshore them, GTAG recommended that the UK Government consider a range of perspectives. The perspectives of users, implementers and beneficiaries may vary, therefore there may sometimes be trade-offs between different priorities when reviewing EU TSC.

GTAG developed a set of principles based on the following assumptions:

- The UK will want to use its own taxonomy development process to help guide and shape the development of international standards – and ensure usability and usefulness benefits beyond the UK.
- The UK Green Taxonomy’s success will be judged in relation to the net benefit that it creates. The beneficiaries of the UK Green Taxonomy will be policymakers, firms and society at large, both in the UK and abroad.
- Usability and usefulness will be necessary to achieve this success. GTAG has proposed that the primary focus of the UK Green Taxonomy should be on financial market participants offering financial products in the UK. However, users and implementers are likely to be broader than this and could include companies, financial market / prudential regulators and investors.
- Disclosure of alignment with the UK Green Taxonomy will become a legal requirement for implementers. This implies that the TSC should be clear and unambiguous and that information disclosed against the TSC should be possible to verify.

In light of these considerations, GTAG proposed the following principles should not only be used by Government in its initial review of the EU TSC, but also in subsequent reviews (Government has committed to review the Taxonomy Regulation’s effectiveness every three years¹⁷).

¹⁷ p 28. [Greening Finance Roadmap](#)

Proposed Principles for review of EU TSC



1. Avoid greenwashing and support economic transition:

TSC should support whole-economy economic transition by setting a clear and specific expectation of what will be required for the activity to be compatible with the transition to a net zero and nature-positive global economy by mid-century, and with the UK's target for net zero emissions by 2050 and its adaptation needs.

TSC should be compatible with the UK's sectoral transition pathways, and / or with targets set by devolved administrations and any intermediate climate targets.



2. Simplicity and usability:

In order to ensure usability, TSC should be as simple and unambiguous as possible with clear metrics for companies to report against. Data required must be available or should be possible to provide without undue cost burden. The information reported should be available for a third party to verify.

Metrics in existing UK reporting regimes should be aligned with the UK Taxonomy over time in order to minimise duplication



3. International relevance and consistency:

Sending a constructive and, as far as possible, consistent signal to markets and minimise reporting burdens for UK firms must be key. To achieve this, TSC should, to the extent possible, be identical or equivalent to TSC set out or under consideration by other major economies with ambitious net zero commitments and / or to those under discussion in relevant multilateral forums.

Where possible consistent methodologies and metrics should be adopted – while noting different TSC thresholds for compliance may be needed.

Where possible and appropriate, DNSH criteria should reference international standards as well as UK domestic legislation.

This would serve the aim of contributing constructively to the international taxonomy debate – including on taxonomy alignment, interoperability and potentially increasing global ambition where suitable.

Government actions so far

GTAG acknowledges that Government has undertaken a review of the EU TSC to determine how to carry out a substitution of equivalent UK legal and regulatory reference points for those TSC which currently refer to EU legislation and regulation that will not be used in the UK. GTAG recommended that once adjusted in this way, all of the EU TSC should be adopted as quickly as possible – with the exception of those where further revision is required.

- In the consultation, GTAG believes that His Majesty’s Treasury (HMT) should confirm if certain TSC will be held back for further revision, as recommended by GTAG (see spotlight on buildings).
- The **Greening Finance Roadmap** has set out an initial timeline for market actors to prepare for the implementation of the UK Taxonomy. GTAG recommends that more granular timelines be provided in due course, and that given recent governmental changes, that serious considerations should be given to amending these timelines, and communicating this to the market as soon as possible.

In addition GTAG welcomes the inclusion of three core guiding principles to implementing UK TSC, as set out in the **Greening Finance Roadmap**, which draw on GTAG’s recommendations.

Guiding principles to implementing UK TSC	
Greening Finance Roadmap ¹	GTAG recommendations
<p>Robust and evidence-based: “The Taxonomy will take an objective and science-based approach to assessing sustainability. To support this, the government has created a Green Technical Advisory Group to provide advice on implementation.”</p>	<p>The EU TSC represent market-leading standards that have been developed following a rigorous and science-based assessment – GTAG recommended an ‘adopt some, revise some’ approach to select those deemed fit for purpose for the UK and would maintain those rigorous and science-based standards.</p>
<p>Accessible: “The government intends both for the Taxonomy to be useful to investors and for disclosure requirements not to place a disproportionate burden on business. Government will take a co-ordinated and consultative approach to developing the Taxonomy, incorporating learning from other taxonomies developed internationally.”</p>	<p>GTAG recommended that simplicity and usability are crucial. In order to ensure usability, TSC should be as simple and unambiguous as possible with clear metrics for companies to report to. Data required must be available or should be possible to provide without undue cost burden. Since many UK financial market participants will also be subject to the EU framework, GTAG also recommended close alignment with the EU TSC which would limit divergence and market fragmentation.</p>
<p>Built for the UK to support a global transition: “The government will take an approach that is suitable for the UK market and consistent with UK Government policy. There will also be a clear focus on the benefits of coherence and compatibility with other international frameworks.”</p>	<p>GTAG recommended a principle of international relevance and consistency which seeks to minimise reporting burdens for UK firms. To this end, TSC should, to the extent possible, be identical or equivalent to TSC set out or under consideration by other major economies with ambitious net zero commitments and / or to those under discussion in relevant multilateral forums. This would serve the aim of contributing constructively to the international taxonomy debate – including on taxonomy alignment, interoperability and potentially increasing global ambition where suitable.</p>

¹ p.22 **Greening Finance Roadmap**



Advice In Action: Buildings TSC

Several of the EU Buildings TSC include metrics and references that are not usable in a UK context.

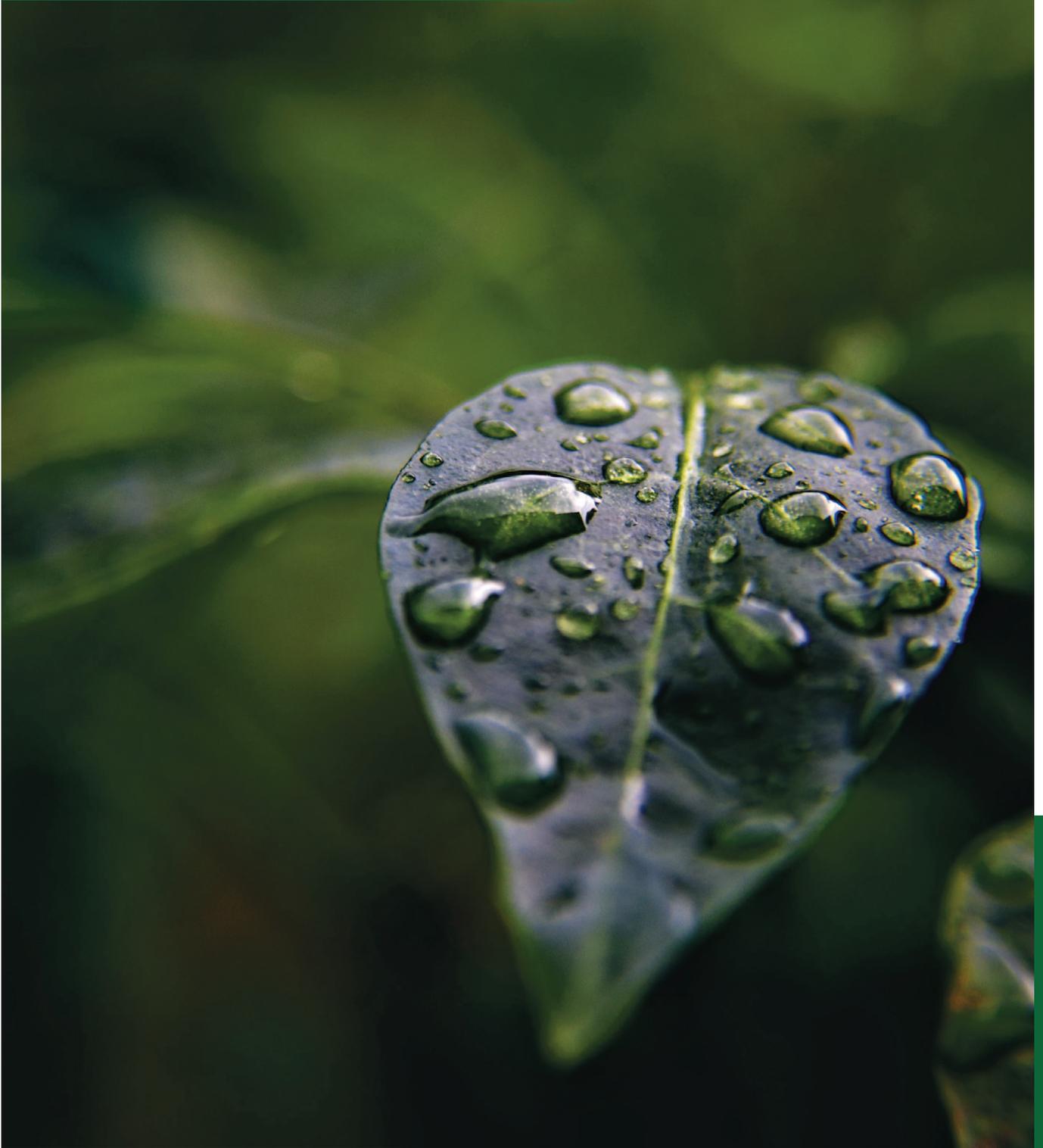
Potentially holding back the buildings TSC for more interrogation in the UK-context is a useful example of the ‘adopt some and revise some’ approach GTAG has proposed.

- The TSC on sustainable economic activities with regards to buildings are key to directing capital towards decarbonising the UK’s building stock and addressing greenwashing in this sector. The built environment currently accounts for around 30% of UK emissions. Energy efficiency is therefore a key sector for the UK’s net zero ambitions, as well as the UK Government’s renewed focus on energy security¹.
- GTAG used its convening power to bring together sectoral and financial experts to discuss the EU buildings TSC in the UK context. This was used to provide advice to Government on the market views of the usability of the buildings TSC currently.
- For example, TSC 7.2 (renovation of existing buildings) was deemed unworkable in the UK in its current form:
 - **Significant Contribution (SC):** The TSC uses primary energy demand (PED). The UK is different to many EU member states in that it’s Energy Performance Certificate (EPC) bands are graded based on running costs per m², not PED. However, it is still to be decided if, for the UK Green Taxonomy, it would be more suitable to use a metric based on final energy consumption (FEC) per m², rather than running costs per m². As these are fundamental questions underlying this TSC, more work needs to be undertaken by experts to investigate these questions further.
 - **DNSH:** Issues with the do no significant harm (DNSH) criteria for buildings have also been identified. For example, in the pollution prevention and control DNSH for TSC 7.2: "Building components and materials used in construction do not contain asbestos nor substances of very high concern as identified on the basis of the list of substances subject to authorisation set out in Annex XIV to Regulation (EC) No 1907/2006 of the European Parliament and of the Council.". Labelled products do not currently exist in the market for all chemical substances under this regulation so this element cannot be applied in the UK currently and the DNSH should aim to reflect this at least in the near-term, as adequate capability is developed in the UK.
 - **Legislation:** The EU TSC refer mainly to the Energy Performance of Buildings Directive 2010 (2010/31/EU), which the UK Government transposed through the Energy Performance of Buildings (England and Wales) Regulations 2012, with the remainder being transposed through amendments to the Building Regulations 2010. However some of the recent amendments to the EPB Directive ceased to be effective in the UK on 31 December 2020. It must be determined what the correct legislative references in this TSC should be.

GTAG recommends that given the importance of getting these TSC right, there is strong rationale for the UK Government to refine the buildings TSC further, working with subject matter experts in a similar way to the Energy Working Group to adjust the text of the TSC to suit the UK-specific context.

¹ p 2. [HMG Letter to UK Infrastructure Bank.](#)

**Do no
significant harm**



Background

The UK Green Taxonomy has been designed to ensure that taxonomy-aligned activities not only provide a substantial contribution to an environmental objective, but also will ‘do no significant harm’ (DNSH) to the other environmental objectives¹⁸. This is to ensure the UK Green Taxonomy does not encourage activities that are focused on supporting one environmental objective while having an adverse impact on others and should also help support the flow of capital into sustainable investments and the UK’s efforts to tackle climate change.



There are more than 700 individual DNSH criteria included in the EU TSC. Many reference specific EU laws – and could therefore create issues regarding how they are applied within the UK Green Taxonomy as well as ensuring its interoperability with taxonomies developed outside the EU.

Depending on how such DNSH criteria are administered, they have the potential to create significant usability issues for the UK Green Taxonomy. For example, the FTSE Global All Cap Index universe currently has around 6% potential eligibility under the EU Taxonomy Substantial Contribution criteria, but if DNSH criteria are also added as an alignment requirement (rather than a transparency reporting requirement) this number would be about 0.4%.¹⁹

There are potentially very significant opportunities to streamline, simplify and improve DNSH compliance requirements without losing the broad sustainability ambition they embody. FTSE Russell research shows that there are 105 unique DNSH requirements within the EU taxonomy Climate Delegated Act adopted in

June 2021.²⁰ An economic activity can be subject to 0-20 DNSH requirements, with an average of 10 requirements applied to mitigation activities and 7 to adaptation activities. These DNSH requirements are not evenly distributed across objectives or activities; some economic activities are subject to many more requirements than others, and some environmental objectives have many more requirements than others.

The number of unique DNSH requirements, the specifics and nuances within each DNSH requirement, and the variations in applying DNSH requirements to economic activities make it challenging for companies to assess the EU Taxonomy alignment of activities and challenging for investors to therefore assess the EU Taxonomy alignment of the businesses in which they invest. It also creates complexity and thus potentially disproportionate costs to data gathering.

GTAG has therefore begun to examine options for reviewing and potentially streamlining DNSH to make the UK Green Taxonomy more usable and useful, while retaining the spirit and ambition of the provisions.

¹⁸ p.28 [Greening Finance Roadmap](#)

¹⁹ Source: FTSE Russell (2021). Do No Significant Harm’ and ‘Minimum Safeguards’ in Practice Navigating the EU Taxonomy Regulation

²⁰ The research analysed one by one the DNSH TSC for each economic activity under each environmental objective, grouping similar TSC together and distinguishing those that are different. For more details: <https://www.ftserussell.com/research/do-no-significant-harm-and-minimum-safeguards-practice-navigating-eu-taxonomy-regulation>

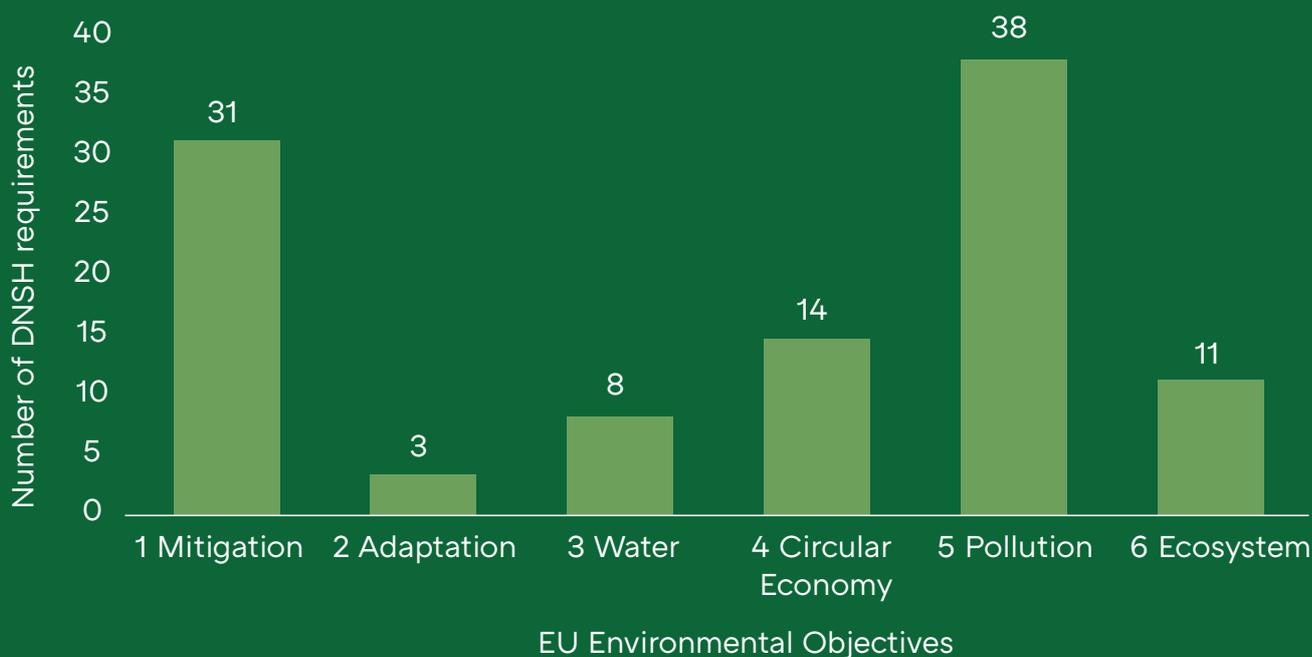
Learning from EU implementation

The UK has the opportunity to learn from the challenges being faced during the implementation of the EU Taxonomy.

A closer look at DNSH requirements reveals the challenges.

- **Complex to navigate**, within the EU Taxonomy, there are generic criteria for DNSH regarding environmental objectives but also specific criteria for individual economic activities²¹.
- **Some DNSH requirements are unique and forward-looking**, such as the requirement to “not adversely affect others’ adaptation efforts” relating to Climate Change Adaptation. Although existing ESG data typically cover climate change topics and ask for corporate disclosure on adaptation solutions, they do not cover this specific DNSH requirement. This requirement does not reflect current corporate disclosure practices either. It is unclear what information a company should disclose to demonstrate compliance.
- **A number of requirements relate to particular pieces of EU legislation.** For example, 14 out of 38 DNSH requirements concerning pollution prevention and control are associated with EU directives such as Directive 2012/18/EU (for the storage of hydrogen above five tonnes). Such requirements are EU-specific and are not captured by those ESG data models that focus on the global financial market.
- **Some DNSH requirements are ambiguous in terms of corporate disclosure.** For example, there is a requirement under the Circular Economy environmental objective, which mandates an economic activity to “design for high durability, recyclability, easy disassembly and adaptability of products manufactured.” It has been mapped to the ESG indicator requiring “use of life cycle analysis in product or system design.” This requirement and the ESG indicator are similar in principle, as the goal is to minimise waste from an economic activity. Yet, there is a difference in what is required from a corporate disclosure point of view where the DNSH requirement is less precise.

Unique DNSH requirements relevant to each environmental objective in the June 2021 EU Taxonomy Climate Delegated Act²²



²¹ Annex to the Commission’s Delegated Regulation

²² Source: FTSE Russell as of September 2021. P.12 FTSE Russell Analysis



GTAG advice: alternative approach being considered

GTAG has been exploring whether a review and revise approach to DNSH requirements within TSC is merited in order to streamline and improve their usability. Under this option, each DNSH TSC will be examined and then amended or streamlined if needed. To ensure Taxonomy alignment, activities will still need to meet these streamlined DNSH requirements – with the key difference that they should be easier to assess, understand and comply with.

The approach presents an opportunity to delete extraneous text and shorten the TSC. And to simplify and attach completable metrics to criteria that are currently vague. Examples include the future resilience of third-party entities and some of the forthcoming TSC relating to biodiversity, the circular economy, etc., for which compliance is similarly non-codified and principles-based.

Having an accessible taxonomy is one of the UK government's core principles for implementing the UK Green Taxonomy and its **Greening Finance Roadmap** stipulates that it should not place a disproportionate burden on business.

Next steps

GTAG has provided advice to Government ahead of the anticipated Taxonomy consultation regarding how questions in the consultation could gather market views on DNSH in relation to:

- Challenges with international assets
- Minimum safeguards
- International standards
- The approach to DNSH taken by other taxonomies.

GTAG is also providing more detailed advice on the rationale for potentially streamlining DNSH, and the best approach to do this, which will be published in due course.

International interoperability



Background

Given the globalisation of capital, GTAG sought to understand the state of play with international taxonomy development – areas of convergence and divergence and relevance for UK design approaches / interoperability.

To do this, GTAG analysed the international taxonomy landscape and summarised the lessons learnt from other taxonomies for the UK Government. The high-level costs and benefits for different types of divergence were also considered. GTAG has recently provided updated advice on how Government can ensure maximum international interoperability, while not sacrificing science-based robustness and not adding disproportionate costs to business. This landscape analysis and this advice will be published by GTAG later this year.

What is the international taxonomy landscape?

Taxonomies and definitions of sustainable activities have proliferated rapidly, with GTAG research showing over 30 taxonomies around the world that are said to be in development or being implemented.

While some taxonomies are currently being developed through the initiative of the private sector (Canada), academia (Japan) or non-governmental institutions (Climate Bonds Initiative, International Organization for Standardization (ISO)), most are developed by sovereign states.

Many countries can have a political / diplomatic context to their taxonomies. For example, a mineral extracting economy like Canada might focus on a transitional sector taxonomy, or a country with wide divergence in income, like India, might prioritise social justice issues.

The EU Taxonomy is the most comprehensive and granular in terms of the sectors and sustainability objectives covered, whereas China's Green Industry Guiding Catalogue focuses on the disclosure requirements for specific sustainable financing instruments (e.g. issuance of green bonds, supply of green credit and statistics).

This continued provision of national taxonomies, however, could exacerbate problems associated with market fragmentation, increase transaction costs as well as the risks of greenwashing through taxonomy arbitrage that may undermine efforts to promote cross-border green capital flows.

Need for international interoperability between taxonomies and related policies

A taxonomy needs to be combined with policy measures to have impact e.g. through a disclosure or labelling regime. The international interoperability of such regimes is a consideration wherever they are applied to assets held across borders.

Not all jurisdictions have the same approach to taxonomy design. Most taxonomies are codified rather than principles-based and not all have adopted features such as DNSH. This could potentially create challenges when it comes to deciding on international interoperability and equivalency. Improved coordination is needed to facilitate the comparability and consistency of different alignment approaches.

Greenhouse gas emissions and climate change do not stop at political boundaries and so the future climate of any one country will be determined by the collective response. Even considering narrow national interests there could be more impact on the UK from overseas investments than from domestic investments.

Hence the design of the TSC for the UK Green Taxonomy not only affects the efficacy of each related policy, but potentially the ease of interoperability of those policies across borders.

In this context, the purpose of facilitating international interoperability is two-fold:

- i. To increase the visibility of green investments across the global economy by 'joining up' different systems;
- ii. And hence enabling the financial system to direct capital to climate mitigation and adaptation investment, in the first instance, where it is most needed.

Is the harmonisation of taxonomies possible?

The International Platform on Sustainable Finance (IPSF) has issued the first version of its Common Ground Taxonomy (CGT)²³, a tool for comparing different taxonomies. It is an attempt to compare the EU's and China's taxonomies, with the goal of facilitating the harmonisation of taxonomies moving forward and encouraging the adoption of similar metrics and concepts.

Unsurprisingly, it is apparent that these two taxonomies are quite different in terms of: objectives, scope, related disclosure obligations and approach to activities. For example, within the paper, reference is made to how there are 16 activities in the China taxonomy that have a narrower scope than the EU's 'manufacture of other low carbon technologies' taxonomy activity.

In addition, only around half of the activities for each taxonomy are covered within the CGT, as their analysis only looked at the climate change mitigation activities within each taxonomy and then mapped them across the Standard Industrial Classification of All Economic Activities (ISIC) codes. 94 climate change mitigation activities matching ISIC codes were identified within the China taxonomy and 87 from the EU Taxonomy.

There is potential for further CGT work incorporating additional environmental objectives, other taxonomies, or eligibility features such as DNSH and minimum safeguards. However, as the IPSF has found, it is challenging to identify areas of common ground, therefore comparing further existing and developing taxonomies will not solve all the international interoperability challenges that currently exist.

GTAG approach

The international landscape of taxonomies was reviewed to understand the different schemes' strengths and weaknesses to see what the UK can learn and what should be avoided if the UK is to meet both user needs (as outlined in the Use Cases section) and ensure the UK Green Taxonomy contributes to our ambitious net zero emissions target.

Options for achieving interoperability between the UK, EU and other taxonomy reporting obligations were explored. This exploration commenced with the potential costs and benefits of the UK diverging from the EU Taxonomy, in particular those arising from setting more ambitious thresholds for compliance that reflect the UK's more ambitious greenhouse gas emission reduction targets.

In implementing the TSC for the UK Green Taxonomy, it had been suggested that Government places more weight on the science and emerging policy environment than the EU Taxonomy does. However, in practice this would mean that the UK TSC would deviate from the EU TSC and would likely generate costs as well as benefits.

The actual costs and benefits of divergence would depend on the direction, scale and nature of that divergence. GTAG aimed to map out the scope of those dimensions so that decisions could be made in parallel e.g. deciding how much of the EU TSC should be onshored or revised, or deciding on use cases, taking the potential for costs and benefits into account, and leading to a more appropriate design.

²³ https://ec.europa.eu/info/files/international-platform-sustainable-finance-common-ground-taxonomy-report-2021_en

Cost and benefits: GTAG findings

GTAG found that the costs and benefits could be identified in their nature but were not possible to quantify – at least not before any actual deviations were decided.

Consequently, GTAG provided an outline of the various costs and benefits to be borne in mind when deviations were being considered, in order to minimise costs and maximise benefits. These pertained to the scale of divergence, its direction and its nature, including uncertainty.

GTAG found that costs are principally borne by the private sector when applying the taxonomy, primarily those firms which operate across borders and financial sector firms in particular. The costs would be incurred in terms of extra staff for monitoring and demonstrating compliance, IT systems, cost of publishing multiple disclosures etc. It was also expected that these costs would in turn be passed on to the end-user / client.

GTAG stressed the importance of green assets not being targeted for greater regulatory compliance action relative to others, otherwise there will be a perverse tax effect. Similarly, GTAG highlighted that green taxonomies would not be the only cross-border trade friction generating costs.

Summary of costs:

The nature of the costs of divergence seems to be straightforward:

- Firms in both the real economy and the financial sector will have to respect different standards in different jurisdictions, potentially multiplying the cost of compliance or voluntary observance;
- It could also reduce the impact of regulatory signals on corporate decision-making. Divergence of standards does exist already for many goods and services. But a UK Green Taxonomy which is very different from that of the EU could add a new dimension for financial markets and especially for those managing international portfolios of assets and / or offering direct or implied asset management services (e.g. through insurance contracts, pension funds);
- This would include extra costs and disincentives for international investors located or considering operations in the UK. As firms manage those differences, the end-beneficiaries may face both increased costs and confusion: if something is deemed green by the EU Taxonomy but not by the UK Green Taxonomy – or vice versa – can it be held in a green portfolio or not.

Summary of benefits:

The nature of the benefits could include:

- To be effective, the UK Green Taxonomy would need to have a UK legal underpinning rather than an EU legal underpinning, so a degree of divergence is needed;
- More certainty could be created about the future of the UK Green Taxonomy, which would benefit long-term investment and finance;
- A more timely and clear process could be created for updating the UK Green Taxonomy; and, above all, a more effective taxonomy in delivering UK policy ambition and leadership on mitigation and adaptation, by grounding the UK Green Taxonomy in evidence and science-based criteria.

GTAG advice: addressing the trade-offs

The nature of the costs and benefits of diverging from the EU TSC are impossible to accurately cost. However, GTAG offered some advice to minimise the costs and maximise the benefits.

Scale

It is reasonable to assert that the costs and benefits of deviating in the choice of TSC would increase with the scale of that deviation. Large or widespread deviations would likely be more costly but could also be more beneficial. GTAG advised:

- a) The larger the deviation being considered the more thought should go into its design so that any mitigants to cost can be employed and benefits maximised. Similarly, the complete portfolio of divergences needs to be assessed in order to gauge its significance.
- b) Widespread or large deviations from the EU Taxonomy which would make the UK Green Taxonomy substantially different should be avoided, or at least would require substantial benefits to be identified.

Direction

GTAG advised that the UK Green Taxonomy should be science-based, comprehensive and dynamic. In general, a strategy that is consistent with the EU Taxonomy is likely to have fewer costs and more benefits than one which is more ambitious in some criteria and less in others. i.e. if the UK Green Taxonomy could guarantee consistency with the EU Taxonomy it might help reduce the cost of implementation, bearing in mind that the TSC have to be applicable and relevant from the start. GTAG concluded:

- c) The UK Green Taxonomy should strive to always be at least as ambitious in TSC and coverage as the EU – or other significant international taxonomies.

Specifically, GTAG felt that the TSC need to remain science-based and avoid lobbying by vested interests which may be intended to soften the TSC or water down the DNSH requirements. Being science-based is not necessarily a precisely defined concept so GTAG recommended that the justifications for TSC deviations should be evidenced and published as this would help keep the focus on the science and not matters of industry convenience. GTAG recommended:

- d) The UK Green Taxonomy should remain committed to being science-based and maintain a clear record of how TSC are derived.

Nature

Some types of deviation could be more costly or beneficial than others. And some costs to industry are genuine, not simply self-interested lobbying. It is difficult to advise in abstract, but GTAG highlighted some dimensions:

- e) The UK Green Taxonomy should not only consider its deviations from the EU Taxonomy but any significant deviations from other taxonomies in major jurisdictions. The UK criteria should be internationally comparable; meaning it is threshold-based or process-based and measurable.
- f) The UK Green Taxonomy should strive to give certainty. And where there is necessarily a degree of future uncertainty, the UK should commit to a strategy that gives a clear indication of the direction of travel.
- g) The UK Green Taxonomy should minimise deviations which require materially different IT systems unless the reasons are well justified.

Next steps

GTAG welcomes the Government's plan to consult on international interoperability as part of the anticipated taxonomy consultation. GTAG will set out further recommendations on approaches to international interoperability in due course. To support this, GTAG advised Government on the consultation questions that should be asked during this process.

GTAG will publish further advice on specific ways to promote international interoperability through TSC, reporting and international discussions later this year.

Taxonomy use cases



Early on in the process, GTAG members questioned the purpose of the UK Green Taxonomy beyond the headline focus of addressing greenwashing. This prompted discussion on the stated and potential use cases for the taxonomy and identified the fact that GTAG advice on key questions, such as how to optimise the process of onshoring / reviewing EU TSC, would vary based on the use case being considered.

Thus, it was quickly decided that the prioritisation of use cases would be prudent in order to structure useful advice to Government on the design and implementation of a UK Green Taxonomy. It was also acknowledged that use cases are all interlinked and should be explored further by GTAG.

Background

GTAG provided the following recommendations to Government as a foundational piece of thinking, ahead of progressing the other workstreams discussed in this paper. In providing this advice, GTAG sought to answer the question: whose investment decisions should the UK Green Taxonomy seek to influence, as a priority, to close the investment gap for achieving climate change and wider environmental targets?

Three possible answers were identified, all of which are currently deemed in scope:

- **Option 1:** Investment decisions by capital markets investors, including end (retail) investors;
- **Option 2:** Real economy company capital and operational expenditure;
- **Option 3:** Public investment / fiscal decisions.



Summary list of Taxonomy use cases

High priority

Medium priority

Low priority

In Scope or Potential Use case?	Use Case Description	Use Case Priority
Public and private companies and LLPs (including financial institutions) (primary focus²⁴)		
In scope	To address the issue of data gaps for financial market participants (FMPs) dealing with greenwashing through mandatory reporting	High priority
In scope	Exploring the extent to which these requirements are extended to small/medium enterprises	Medium priority
Government and local authorities (primary focus)		
In scope	Strengthen the green credentials of UK sovereign green bonds	High priority
In scope	Underpinning sectoral policy design to support the net zero strategy	Medium priority
Potential use case	To underpin the planning advice by the National Infrastructure Commission and project delivery planning by the Infrastructure and Projects Authority	Medium priority
Potential use case	Mitigation and adaptation taxonomies to underpin planning decisions at local authority level	Medium priority
Potential use case	The UK Green Taxonomy could guide future UKIB investment strategy and decisions	Medium priority

²⁴ Note that by secondary we mean here that they feed into the primary use cases - i.e. for FMPs and their regulators - and not that they are somehow less important than the primary use cases.

Summary list of Taxonomy use cases

High priority



Medium priority



Low priority



In Scope or Potential Use case?	Use Case Description	Use Case Priority
Potential use case	Underpin broader public financing decisions for the net zero strategy	Medium priority
Potential use case	Encouraging foreign countries transition to net zero by using the UK Green Taxonomy to underpin Overseas Development Aid decisions	Medium priority
Potential use case	Delivering of the levelling up agenda, subject to a social taxonomy being developed	Medium priority
For FMPs offering financial products in the UK (secondary focus)		
Regulated Firms		
In scope	To address the issue of greenwashing and encourage better understanding of climate and sustainability risks and opportunities through a required reporting level of taxonomy alignment at company level as part of wider mandatory TCFD and other reporting	High priority
Potential use case	Improve consumer choice and confidence, e.g. by underpinning universal comply or explain or alternatively mandatory product level disclosure requirements	High priority
Potential use case	Improve consumer choice and confidence, e.g. by using the UK Green Taxonomy as an input to develop a green kitemark or regulated label for UK financial products	Medium priority
Financial Market Regulators		
Potential use case	UK Green Taxonomy use within Pillar 2 of prudential regulation, including but not limited to supervisory intervention	Medium priority
Potential use case	UK Green Taxonomy use within Pillar 1 of prudential regulation, setting minimum capital requirements against credit, market and operational risk	Medium priority
Potential use case	UK Green Taxonomy use within monetary policy, including asset purchase, collateral and refinancing operations	Medium priority

Tracking green financial flows

Currently tracking green financial flows at a country level appears to be undertaken by NGOs and academic outfits, such as I4CE and the Climate Policy Institute, which scrape data from public and private sources that is often neither consistent nor comparable.

Generating data by using the UK Green Taxonomy could help address these gaps and allow Government to assess progress in making sure finance flows are consistent with a pathway towards low greenhouse gas emissions and climate-resilient development²⁵.

The Committee on Climate Change has stated the UK needs an extra £50 billion to go towards low carbon investment annually by 2030 to meet the sixth carbon budget²⁶. Tracking progress in greening financial flows will provide valuable information to Government and to the market on the progress being made in delivering the investment needed.

There will still be questions about where this data sits and by whom it is collated. Potential agents / venues for this are His Majesty's Treasury; BEIS; the Office for Budget Responsibility; the Committee on Climate Change and / or the Environment Agency, or a combination of all five.

Actions stemming from GTAG advice

Following GTAG's advice, the Greening Finance Roadmap confirmed that the UK Green Taxonomy will apply to corporates, assets owners and managers, as well as investment products. The document states Government's intent for "the Taxonomy [to be] implemented and built to deliver for the needs of UK business and investors and is robust enough to support the UK's net-zero commitment"²⁷. Government confirmed the main aims of the UK Green Taxonomy for public and private companies to be as below²⁸:

"Reporting against the Taxonomy will form part of the UK's SDR. Certain companies will be required to disclose which proportion of their activities are taxonomy-aligned. Providers of investment funds and products will have to do the same for the assets that they invest in. The UK Green Taxonomy aims to:

- 1. Create clarity and consistency for investors:** Investors will be able to easily compare the environmental performance and impact of companies and investment funds to inform their financial decisions.
- 2. Improve understanding of companies' environmental impact:** UK Green Taxonomy disclosures will facilitate an understanding of companies' contribution to environmental sustainability.

- 3. Provide a reference point for companies:** The UK Green Taxonomy will provide companies with an informative performance target. For example, they can also, on a voluntary basis, use the UK Green Taxonomy to develop and communicate their net zero transition and capital investment plans."

In order to best and most effectively meet these aims, GTAG advised that public and private companies, as well as limited liability partnerships, should be the primary focus. By requiring firms to report their level of UK Green Taxonomy alignment at a company level, as part of the wider mandatory TCFD reporting, this would help address the issue of data gaps for financial market participants that are required to deal with greenwashing concerns and create a better understanding of climate and sustainability risks and opportunities in the real economy.

Obligations to report in line with the UK Green Taxonomy could potentially be enacted through five (potentially interlinked) options:

- The new integrated SDR regime;
- Changes to the Companies Act 2006 sections 414C, 414CA and CB and Schedule 7;
- Amendments to Listing Rules or the FCA's Disclosure Guidance and Transparency Rules;
- The introduction of new International Sustainability Standards Board (ISSB) standards;
- Updates to voluntary initiatives or codes.

²⁵ Article 2c of the Paris Agreement on Climate Change

²⁶ <https://www.theccc.org.uk/wp-content/uploads/2020/12/The-Sixth-Carbon-Budget-The-UKs-path-to-Net-Zero.pdf>

²⁷ p.27 **Greening Finance Roadmap**

²⁸ p.22 **Greening Finance Roadmap**

GTAG also recommended the extent and means by which these requirements are extended to SMEs should also be explored, but at a lower priority. GTAG will provide more specific advice on reporting requirements in the future.

As a secondary focus, GTAG also advised that FMPs offering products in the UK and their regulators should be prioritised as this would help standardise the information provided to the market and enable easier comparison by users.

This could potentially be enacted through three possible routes:

- The introduction of new sustainability-related disclosures rules;
- Amendments to the FCA Handbook – more specifically the proposed ESG and MiFIDPRU sourcebooks;
- Amendments to the Stewardship Code 2020; or FRC/Industry Guidance on climate reporting.

In addition, GTAG believes there is a strong argument for this clarified focus on primary capital deployment to ensure banks and insurers – specifically, but not only, corporate insurers – also report on taxonomy alignment. GTAG is exploring this option further through its UK-Specific Needs workstream.



Spotlight

Taxonomy reporting for lending, underwriting and investment activities for banks and insurers

- These entities are required to report on the extent to which their turnover, capital expenditure (CapEx) and operating expenditure (OpEx) for non-financial undertakings are associated with economic activities that are environmentally sustainable under the EU Taxonomy¹. It is noted that these are not necessarily appropriate metrics to assess such entities' primary market activities.
- Instead, the specific taxonomy-related KPIs applicable to banks, insurers and asset managers in respect of their lending, underwriting and investment activities are set out in Commission Delegated Regulation or the “Delegated Act”. The Taxonomy Regulation, read in conjunction with the Delegated Act, provides the mechanism by which the lending and underwriting activities of (in-scope) banks and insurers are assessed against the EU Taxonomy and relevant disclosures made. This Delegated Act was not onshored in the UK, as it was introduced after the EU Exit Regulations.

Entity level disclosures (Financial Undertakings) for Banks / Credit Institutions

UK (current and under SDR proposals)	EU	
	SFDR	Taxonomy Regulation
Scope		
Unclear at the moment – no/limited information	Applies to banks (Financial Market participants or Financial Advisers); credit institutions providing portfolio management or investment advice (i.e. private banks).	Applies to “large” banks (financial undertakings subject to the Non-Financial Reporting Directive (NFRD)).
Requirements		
No/limited information (but subject to requirements that apply to corporates/issuers insofar as it is a UK company or UK-listed entity)	No specific requirements	Disclosures on how and to what extent financing activities align with the EU Taxonomy, including Green Asset Ratio (proportion of assets invested in environmentally sustainable activities as a share of total relevant assets), KPIs for off-balance sheet assets and a KPI for commissions and fees related to activities other than financing.

¹ Article 8(2) of the Taxonomy Regulation

- While it is clear that the proposals under the UK Green Taxonomy sustainability-related disclosures will incorporate these entities, it is unclear at this stage how and by what mechanism taxonomy-related disclosures relating to the lending, underwriting and investment activities of banks and other financial institutions will be implemented.
- GTAG will provide recommendations on the best route for this in due course.

GTAG welcomes the ‘government and local authority’ use cases that are already under consideration by Government.

Green gilts	The UK issued its first green gilt in September 2021. The £10 billion issuance was more than 10 times oversubscribed. In the Greening Finance Framework , it was noted that “HM Treasury intends to align this Framework with the UK’s developing classification of environmentally sustainable economic activities (the “UK Green Taxonomy”)”. This also aligns with the high priority recommendation provided by the GTAG.
UK Infrastructure Bank	The former Chancellor’s March 2022 letter to the UK Infrastructure Bank, providing strategic steer to the bank and the outcome of Government’s review of the bank’s environmental objectives, signalled the Government’s expectation that the Bank’s reporting plans “align with the UK’s reporting requirements for green finance as these evolve and come into force over time”. This explicitly included the UK Green Taxonomy, which aligns with the GTAG’s medium priority recommendation. The UK Infrastructure Bank has since confirmed that it will align with the UK Green Taxonomy, in its July 2022 Strategic Plan , stating “we will monitor our portfolio’s alignment against the UK Green Taxonomy, when it is finalised, and therefore will check the status of individual projects”.
FCA	In November 2021, the FCA published Discussion Paper 21/04 on new sustainability disclosures and sustainable investment labels. The FCA is looking to introduce new client- and consumer-facing entity- and product-level sustainability disclosure requirements for asset managers and certain FCA-regulated asset owners, as well as a new classification and labelling system for sustainable investment products. As part of this, it was highlighted that consumer-facing disclosures should include the “proportion of assets allocated to sustainable investments (according to criteria set out in the UK Green Taxonomy)”. This is in-line with the GTAG recommendation that the UK Green Taxonomy could be used to improve consumer choices and confidence in green finance products, notably in, but not limited to, the retail space. GTAG welcomes the regulator’s approach to this, and the GFI represents GTAG on the FCA Disclosures and Labelling Advisory Group (DLAG) which is advising the FCA on this.

GTAG will continue to advise on how these areas can work in practice, through its Policy Links workstream.



GTAG Advice on Climate Change Adaptation

The UK Green Taxonomy's adaptation TSC create an opportunity to guide capital toward investments that will reduce the risk of current and future climate change impacts on economic activity, people, nature and individual assets by increasing their resilience to the changing climate.

- One of the challenges of enabling the adaptation TSC to fully deliver on this opportunity is the nascent state of the adaptation policy landscape. This is compounded by the early stage of adaptation and resilience market development and, thus, the lack of consensus on how to describe adaptation-related investment and which data and metrics to use to measure and manage resilience.
- Currently, the UK Green Taxonomy adaptation TSC primarily mirror the EU's adaptation TSC and, as such, focus on processes rather than outcomes in terms of delivering resilience investment.
- There is currently a significant gap around what actual impacts and outcomes the UK's adaptation TSC are seeking to achieve in terms of enabling the UK economy to adapt to a changing climate. The EU was in a similar position to the UK but is now developing an adaptation strategy, which will define its overall adaptation ambition as well as policy frameworks that will work alongside the EU Taxonomy to facilitate the public and private investment needed to deliver the ambition.
- A similar approach is needed for the UK if the UK Green Taxonomy is to be fully effective in helping guide and unlock capital to deliver the UK's adaptation needs. Without Government intervention to address existing gaps, the UK Green Taxonomy risks catalysing only a fraction of the adaptation and resilience-focused investment the UK needs.
- As noted above, the UK is not alone in facing these challenges – and there are useful lessons that can be learned from the EU's experience in addressing these gaps to underpin impactful TSC development. Similarly, there are emerging market-based initiatives that can be drawn on to help develop the frameworks needed to support the creation of a useful and usable adaptation taxonomy.

GTAG has therefore advised on the need for a two-pronged approach to delivering a UK Green Taxonomy that supports investment into adaptation-aligned economic activities.

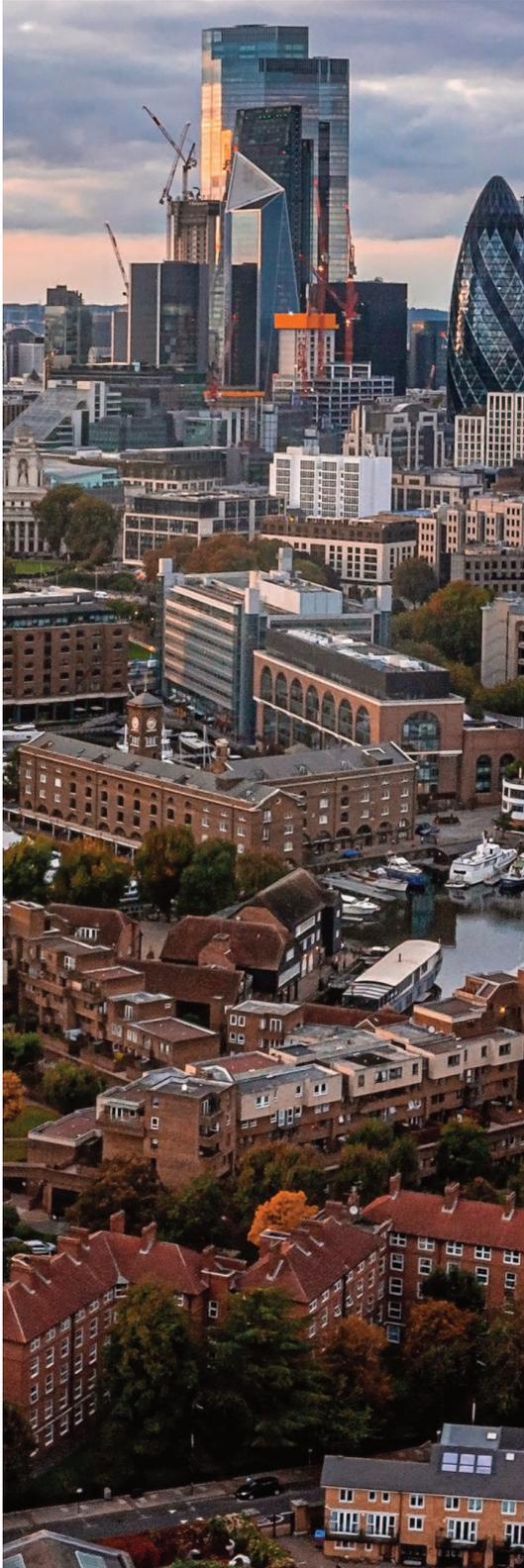
- The first relates to the goals and roles referenced above and would involve developing an **investment-enabling adaptation framework and policies** into which the UK Green Taxonomy can deliver – which has links to areas of the GTAG's work, notably the International Interoperability and Policy Links workstreams. A crucial part of this would be to provide an overarching goal for climate change adaptation, to provide a call to action for business and finance to get behind, analogous to the UK Government's headline objective for climate change mitigation and net zero by 2050.
- The second not only relates to roles but also to developing definitions, for which GTAG suggested the next step should be setting up an **Adaptation Working Group to advise on the design and implementation of an enhanced set of adaptation TSC** to help catalyse the investment needed to achieve resilience and deliver wider economic opportunities relating to adaptation¹.

¹ 'Resilience' has a wide range of meanings. Adaptation is often organised around resilience as bouncing back and returning to a previous state after a disturbance. More broadly the term describes not just the ability to maintain essential function, identity and structure, but also the capacity for transformation.

Two-pronged approach – recommendations related to GTAG-specific actions:

<p>Recommendations relating to developing an investment-enabling adaptation framework and policies</p>	<p>Recommendations relating to developing a useful and usable adaptation taxonomy</p>
<p>The following recommendations go beyond the remit of GTAG and address the wider need to develop a UK-specific enabling environment consisting of goals, targets and policy frameworks that taxonomy-based investment and lending can ‘play into’ and thus work to implement:</p> <ul style="list-style-type: none"> • Establish a clear headline ambition for adaptation investment in the UK • Develop adaptation targets and policies designed to deliver this headline ambition • Set out the role of public and private investment to deliver the UK’s adaptation needs and track progress in capital deployment • Ensuring coordination and oversight of public and private adaptation investment to deliver UK resilience 	<p>The following recommendations relate to GTAG-specific actions:</p> <ul style="list-style-type: none"> • Broaden the scope of the adaptation TSC • Agree descriptors and metrics that enable the UK Green Taxonomy and other tools to fill data gaps and support forward-looking scenario-based decision-making • Considering international interoperability

Future GTAG advice



The Government's anticipated taxonomy consultation will be an important step in the process of developing the UK Green Taxonomy. GTAG believes there are a number of key questions that Government should seek input on before the statutory instrument is finalised. GTAG has also been continuing to consider these issues, as well as looking ahead to the next steps needed to develop a fully realised UK Green Taxonomy, and has provided further advice that will be published in due course. This involves considering the following questions:

- How can international interoperability be embedded in the UK Green Taxonomy, and how can taxonomy international interoperability be promoted more widely?
- How can the application of the UK Green Taxonomy be expanded to increase coverage of the UK economy?
- How should the UK approach the development of TSC for the remaining environmental objectives in the UK-specific context³⁰?
- How can the UK Green Taxonomy support the development of transition plans?

GTAG will continue to provide independent, non-binding advice to Government.

Next steps

The mandate for GTAG is to provide advice to Government on topics related to developing the UK Green Taxonomy. GTAG's mandate is currently stated to be 2 years. After this stipulated period has elapsed, Government will have the option to extend the mandate, or to appoint new members. In the meantime, GTAG will continue in its project coordination role and will continue drafting workstream-specific documentation and recommendations.

Further updates on GTAG work will be forthcoming, and further recommendations will be published later this year

³⁰ p.23 Greening Finance Roadmap

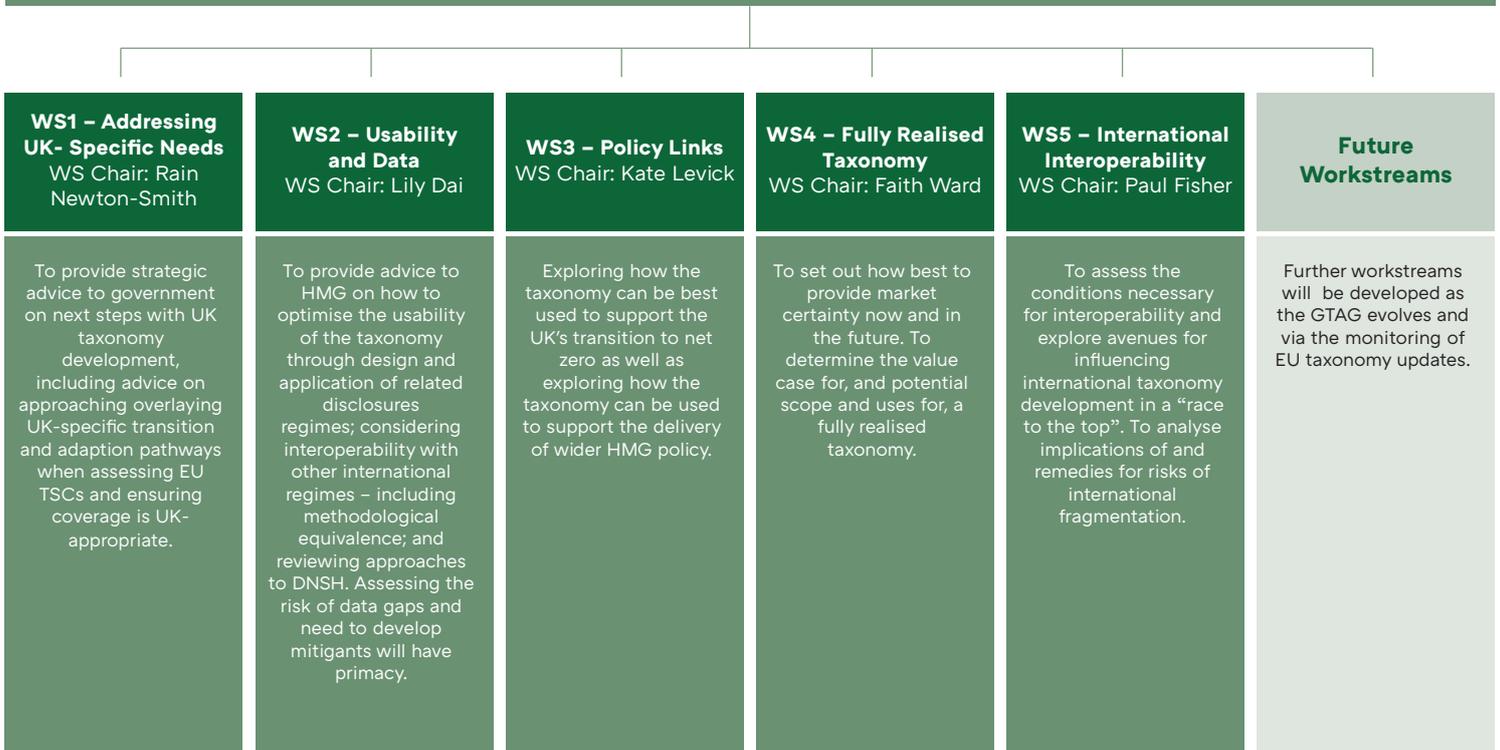
Annex

GTAG Structure and Workstreams

Chair: Ingrid Holmes (GFI)

18 original members, 4 ad-hoc members plus HMG, FCA, PRA observers

Appointed members from a range of sectors, including finance, business, academia & NGOs



GTAG Members

Chair: Ingrid Holmes, Green Finance Institute

Users of the taxonomy – Financial Services

- **Faith Ward**, Institutional Investors Group on Climate Change
- **James Alexander**, UK Sustainable Investment and Finance Association
- **Elizabeth Gillam**, International Regulatory Strategy Group

Users of the taxonomy – Non-Financial Services

- **Nick Molho**, Aldersgate Group
- **Rain Newton-Smith**, Confederation of British Industry

Taxonomy & Data Experts

- **Mike Thompson**, Committee on Climate Change
- **Alyssa Heath** (June 2021 – August 2021), **Olivia Mooney** (August 2021 – February 2022), **Margarita Pirovska** (February 2022 – July 2022), **Eliette Riera** (July 2022 – present), Principles for Responsible Investment
- **Prashant Vaze** (June 2021 – March 2022), **Anna Creed** (March 2022 – present), Climate Bonds Initiative
- **Lily Dai**, FTSE Russell, London Stock Exchange Group
- **Nadia Humphreys**, Bloomberg
- **Anna Bond** (June 2021 – January 2022), **Katie Spooner** (January 2022 – present), Environment Agency

Academia & Subject Matter Experts

- **Paul Fisher**, Cambridge Institute for Sustainability Leadership
- **Ben Caldecott** (June 2021 – August 2022), **Nicola Ranger** (August 2022 – present), Centre for Greening Finance and Investment and Oxford Sustainable Finance Group / University of Oxford
- **Nick Robins**, Grantham Institute / London School of Economics
- **Theodor Cojoianu**, Queen’s University / University of Edinburgh
- **Rhian-Mari Thomas**, Taskforce on Nature-Related Financial Disclosures (TNFD)

NGOs

- **Kate Levick**, E3G
- **Karen Ellis**, WWF

Ad-hoc Members

- **Rachel Barrett**, Linklaters (August 2022 – present)
- **Mark O’Sullivan**, PwC (August 2022 – present)
- **Amanda Swaffield**, Deloitte (August 2022 – present)
- **Jeffrey Twentyman**, Slaughter and May (August 2022 – present)

Observer Group

- HM Treasury
- Department for Business, Energy and Industrial Strategy
- Department for Environment, Food and Rural Affairs
- Financial Conduct Authority
- Bank of England
- Other relevant HMG departments and regulators

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Glossary

ASEAN	Association of Southeast Asian Nations
BAT	Best Available Technique
BEIS	Department for Business, Energy and Industrial Strategy
CapEx	Capital Expenditure
CCUS	Carbon Capture, Utilisation, and Storage
CGFI	Centre for Greening Finance and Investment
CGT	Common Ground Taxonomy
CISL	Cambridge Institute for Sustainability Leadership
COP26	2021 United Nations Climate Change Conference
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
DA	Delegated Act
DEFRA	Department of Environment, Food and Rural Affairs
DLAG	Disclosures and Labelling Advisory Group
DNSH	Do No Significant Harm
DWP	Department for Work and Pensions
EA	Environment Agency
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EIB	European Investment Bank
EPC	Energy Performance Certificate
ESG	Environmental, Social, Governance
ESMA	European Securities Markets Authority
EUGBS	European Green Bond Standard
EWG	Energy Working Group
FCA	Financial Conduct Authority
FED	Final Energy Demand
FMP	Financial Market Participant
FRC	Financial Reporting Council
FTSE	Financial Times Stock Exchange
GFANZ	Glasgow Financial Alliance for Net Zero
GFI	Green Finance Institute
GTAG	Green Technical Advisory Group
GVA	Gross Value Added
HMG	His Majesty's Government
HMT	His Majesty's Treasury
ICMA	International Capital Market Association
IFRS	International Financial Reporting Standards Foundation
IIGCC	Institutional Investors Group on Climate Change
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPSF	International Platform on Sustainable Finance
IRSG	International Regulatory Strategy Group

ISIC	Industrial Classification of All Economic Activities
ISO	International Standardization Organisation
ISSB	International Sustainability Standards Board
KPI	Key Performance Indicator
LLP	Limited Liability Partnership
LSE	London School of Economics and Political Science
LSEG	London Stock Exchange Group
MiFIDPRU	Collective Portfolio Management Investment Firm
MS	Minimum Safeguards
NFRD	Non-Financial Reporting Directive
NGFS	Network for Greening the Financial System
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
OpEx	Operational Expenditure
PED	Primary Energy Demand
PRI	Principles for Responsible Investment
SC	Substantial Contribution
SDR	Sustainability Disclosure Requirements
SFDR	Sustainable Finance Disclosure Regulation
TCFD	Task Force on Climate-Related
TEG	Technical Expert Group
TSC	Technical Screening Criteria
UKIB	UK Infrastructure Bank
UKSIF	UK Sustainable Investment and Finance Association
WWF	World Wide Fund for Nature