



HM Treasury

# UK Green Taxonomy **Consultation**

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November 2024





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# Chapter 1

## Introduction

1.1 The transition to a net zero, climate resilient, nature positive economy is essential for long-term economic growth. The Climate Change Act 2008 sets out the statutory framework for the UK's approach to reducing greenhouse gas emissions and adapting to climate change, and the Environment Act 2021 sets out legally binding environmental targets.

1.2 Delivery of the transition alongside an acceleration of growth will rely on the mobilisation of private capital. The Climate Change Committee (CCC) estimate that we need to mobilise an additional £50 billion investment into the transition every year into the 2030s, with most of this from the private sector.<sup>1</sup> The government intends to attract the required private capital using a combination of long-term policy signals, world-leading financing mechanisms, transparent market frameworks, targeted public investment, and a clear coordinated offer from our Public Financial Institutions.

### Mission delivery

1.3 The government has set out its first steps in delivering the clean energy and growth missions, and is committed to delivering for nature. This includes taking action to meet the Environment Act targets to restore and protect our natural world and adapt to the changing climate. The government established the National Wealth Fund (NWF) which, armed with £27.8 billion in capacity, will mobilise private investment into priority sectors including key clean energy industries.

1.4 The clean energy transition represents a huge opportunity to boost growth, bring down the cost-of-living and make Britain energy independent. GB Energy (GBE) is a new publicly owned and operationally independent clean energy company, at the heart of the government's clean power mission that will work in lockstep with the NWF.

1.5 The government is also removing the barriers to investment into the clean energy sector and wider green industries - already approving several major solar projects, and reversing the de-facto ban on onshore wind in England.

1.6 The government will introduce a new Industrial Strategy to drive long-term sustainable, inclusive and secure growth. The government

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<sup>1</sup> <https://www.theccc.org.uk/wp-content/uploads/2020/12/The-Sixth-Carbon-Budget-The-UKs-path-to-Net-Zero.pdf>

published a Green Paper (14 October 2024) setting out its vision for the Industrial Strategy, which marks net zero and clean energy industries as core priorities.<sup>2</sup>

## Sustainable finance policy landscape

1.7 Within this context, the government has set out its ambition for the UK to be the world leader in sustainable finance. This includes delivering a regulatory framework to support sustainable growth and enable the private sector to realise the opportunities of the transition.

1.8 Through this consultation, the government is exploring whether a UK Green Taxonomy can be a useful tool in contributing to this ambition. A taxonomy is a classification tool which provides its users with a common framework to define which economic activities support climate, environmental or wider sustainability objectives.

1.9 The purpose of developing a taxonomy for sustainable activities is typically to facilitate an increase in sustainable investment, and/or to reduce greenwashing, including by providing a reference point for other policies.

1.10 A taxonomy differs from other sustainability initiatives in that it is predominantly designed to apply at the level of economic activities, providing users with information about individual activities and processes.

1.11 By contrast, reporting frameworks such as those provided by the International Sustainability Standards Board (ISSB)<sup>3</sup> and the Transition Plan Taskforce Disclosure Framework<sup>4</sup> are mainly focused on providing investors with the information they need to assess sustainability-related risks and opportunities at an entity-level.

1.12 Globally, around 20 jurisdictions have a government-endorsed taxonomy in operation, with approximately 30 more considering developing one. The focus and use cases for these taxonomies vary, and they are accompanied by a mixture of voluntary and/or mandatory reporting requirements, with some large, UK-based companies subject to requirements against these existing taxonomies in relation to international operations. These taxonomies are not static frameworks, but require continual monitoring and evaluation, for example to update criteria or expand sectoral coverage.

1.13 The government is committed to learning the lessons from taxonomy implementation in other jurisdictions and gathering the feedback of market participants. This will inform an assessment of the

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<sup>2</sup> Industrial Strategy Green Paper

<https://assets.publishing.service.gov.uk/media/6711176c386bf0964853d747/industrial-strategy-green-paper.pdf>

<sup>3</sup> IFRS - International Sustainability Standards Board <https://www.ifrs.org/groups/international-sustainability-standards-board/>

<sup>4</sup> Transition Plan Taskforce Disclosure Framework <https://www.ifrs.org/content/dam/ifrs/knowledge-hub/resources/tpt/disclosure-framework-oct-2023.pdf>

value of implementing a taxonomy in the UK, and exactly how it could be targeted to ensure it is as effective as possible.

1.14 The UK has progressed a wider framework of sustainable finance policies which seek to limit greenwashing and channel investment in support of the government's sustainability objectives. These aim to unlock the full potential of the financial services sector to realise the opportunities of the transition to a net zero, climate resilient, nature positive economy. These measures are focused on transparency and ensuring the sector has the right tools and information to manage risks and identify opportunities:

- **International Sustainability Standards Board (ISSB):** The government intends to consult on requiring economically significant companies to disclose information using future UK Sustainability Reporting Standards, which will be based on the internationally interoperable ISSB Reporting Standards. The FCA will use these standards to consult on updated disclosure requirements for UK-listed companies. Implementation of ISSB standards in the UK will maximise the consistency and comparability of information for investors. Enhanced entity level disclosures about climate and sustainability-related financial risks and opportunities will support more informed financial decision making and efficient capital allocation.
- **Transition plans:** The UK's work through the Transition Plan Taskforce (TPT) will support credible transition plan disclosures to set out how organisations will both drive change and adapt as the world moves towards a net zero economy. Transition plans have the potential to mobilise finance at a transformative scale globally, and can support further government policy as firms identify uncertainties in their own planning. The International Financial Reporting Standards (IFRS) Foundation has now assumed responsibility for the TPT Disclosure Framework as part of ISSB work to streamline and consolidate frameworks and standards for disclosures about transition plans. The government will also consult in the first half of next year on how best to take forward the manifesto commitment on transition plans in support of its ambition to become the global hub for transition finance and ensure the UK's regulatory framework is growth-focused, internationally competitive and maintains the UK's status as a global financial hub.
- **Transition Finance Market Review (TFMR)<sup>5</sup>:** The government has welcomed this Review, which was focused on assessing how the UK can become the best place to raise transition capital,

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<sup>5</sup> Scaling Transition Finance Report (theglobalcity.uk)

<https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/Scaling-Transition-Finance-Report.pdf>

including how the UK can develop innovative financial products to unlock long term capital. The Review was published on 17 October 2024 and government will be considering the recommendations over the coming months. The government is delivering one of the key recommendations by co-launching the Transition Finance Council with the City of London Corporation. This will help build the UK's transition finance market to support higher emitters to finance genuine transitions towards net zero.

- The **FCA's sustainability disclosure and fund labelling** regime is designed to help investors navigate the market for sustainable investment products, limiting greenwashing at the financial product level and informing allocation of retail capital.
- **Regulation of the provision of Environmental, Social and Governance (ESG) ratings:** This will increase transparency and investor confidence in ESG ratings, which provide an assessment of companies, funds or financial instruments and are becoming an increasingly important part of the market for sustainable finance. The government has published a consultation response alongside a draft Statutory Instrument on 14 November.

## Purpose of the consultation

1.15 The primary purpose of this consultation is to establish whether a UK Taxonomy would be additional and complementary to existing policies in meeting the objectives of mitigating greenwashing and channelling capital in support of the government's sustainability objectives. To inform this, the consultation seeks to gather views on any market and regulatory use cases for a UK Taxonomy which would contribute to these objectives.

1.16 In addition to developing a clear understanding of the use cases, the government is also seeking feedback on how to maximise the usability of a UK Taxonomy, should respondents support taking one forward. This includes considering key design features that will impact the overall usability of a UK Taxonomy.

1.17 However, it is not in the scope of this consultation to seek detailed feedback on specific activity-level standards. In addition, it is not in the scope of this consultation to seek feedback on wider UK climate and environmental strategies, beyond sustainable finance.

1.18 Chapter 2 seeks feedback on the use cases and how a UK Taxonomy could sit in the wider context of the UK's sustainable finance framework and climate and environment policy. Chapter 3 seeks feedback on specific design challenges.

# Chapter 2

## Assessing Taxonomy use cases

### UK Taxonomy use cases

2.1 As noted in Chapter 1, the government is keen to explore whether there are specific use cases for a UK Taxonomy which support sustainable growth by contributing to the following goals:

- Promoting market integrity and preventing greenwashing; and
- Mobilising capital into sectors critical for the transition.

2.2 The work of the Green Technical Advisory Group (GTAG), and feedback from other taxonomies in operation, suggests there are several potential use cases.<sup>6</sup> These range from very focused uses, such as providing a tool for appraising green bonds, or broader applications such as supporting investor decision making. Some possible examples include:

- Acting as an input to project and business finance decisions, providing consistent standards to allow meaningful comparisons over time;
- Supporting investor stewardship and engagement;
- Informing the development of sustainability-focused financial products;
- Application to investment fund and investment portfolio product disclosures; and
- Use as part of the government's wider climate and environment strategy.

2.3 The government welcomes views from respondents on the balance of costs and benefits across the above use cases, in addition to views on other use cases not covered here.

### Transition finance

2.4 In particular, the government is seeking views on whether a UK Taxonomy is a suitable tool for supporting the mobilisation of transition finance, including financing for activities that enable other sustainable activities. Supporting companies to transition is vital to facilitating

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<sup>6</sup> Green Finance Institute - GTAG <https://www.greenfinanceinstitute.com/programmes/uk-green-taxonomy-gtag/>

growth and reducing emissions. The UK has taken a leading position on this through the work of the TPT and the recently published TFMR .

2.5 The TFMR sets out the importance of considering how transition finance would require special treatment within a UK Taxonomy. In some cases, the binary categorisation of activities can fail to properly account for the nuance of the differing transition pathway within firms.

2.6 Some established taxonomies have looked to address this challenge by building in transitional activities. For example, Singapore has developed a 'traffic light' approach to categorising activities within their taxonomy, whilst the EU has included some transition activities using thresholds that may be updated over time. It may also be possible for firms and investors to assess capital expenditure against a taxonomy as an indication of transition, or to use a taxonomy as an input to transition plans, but this needs further consideration. The government is seeking feedback on the value of these different approaches.

## **Box 2.A Questions for respondents**

- 1. To what extent, within the wider context of government policy, including sustainability disclosures, transition planning, transition finance and market practices, is a UK Taxonomy distinctly valuable in supporting the goals of channelling capital and preventing greenwashing?**

*Sustainable finance tools, such as taxonomies, pathways and roadmaps, transition plans, certification schemes, are not mutually exclusive. If they are additive to each other, they can co-exist and be used by market participants for different purposes.*

*While a taxonomy can have several potential use cases including for the purposes of channeling capital as well as preventing greenwashing (e.g. an ambition benchmarking tool - see also ICMA's report "Market integrity and greenwashing risks in sustainable finance" p.14), we note as a starting point that:*

- In the absence of adequate public policy measures and incentives, a taxonomy alone, like other sustainable finance tools, is not likely to be the driving force of capital flows towards sustainability and transition.*
- Existing laws and regulations covering misrepresentation, including general laws for securities law and the FCA's SDR rules and anti-greenwashing guidance, can provide effective safeguards against and the basis for the supervision of greenwashing.*

*There are also several taxonomies in use by market participants. Depending on its objectives, we believe it would be optimal for the*

UK to recognise existing leading taxonomies from both official-sector (e.g. EU Taxonomy, Singapore-Asia Taxonomy, China Green Bond Catalogue) and market-based sources (e.g. CBI Taxonomy) for voluntary use.

Developing a new and divergent taxonomy and maintaining it can lead to further fragmentation and be very resource intensive with no clear benefit. It could also lead to the re-emergence of sensitive debates on the accepted technologies and thresholds.

If a UK-specific approach is deemed necessary, it should aim to maximise interoperability and could be useful and additional to existing taxonomies by:

- Having clear objectives it eventually aims to serve;
- Providing activities and thresholds that are not included in these existing taxonomies but are material to the UK economy in terms of sectors and their environmental footprints;
- Not incorporating and replicating the usability and implementation challenges of existing taxonomies where they exist; and,
- Sufficiently accounting for the dynamic aspect of transition while leaving space for innovative sustainable solutions.

If a UK-specific approach is adopted, it should be for voluntary use and, in any case, the UK should also consider equivalency for alignment with other taxonomies.

a. **Are there other existing or alternative government policies which would better meet these objectives or the needs of stakeholders?**

For transition finance, as highlighted in our [response](#) to the UK TFMR consultation, we believe a credible entity-level transition plan would be the backbone of any transition finance advanced to entities, whether in labelled or unlabelled form. We also note that several authoritative sources highlight that the lack of sectoral decarbonisation roadmaps and pathways in different geographies as one of the biggest challenges against the uptake of credible transition finance. As we explained in our report "[Transition Finance in the Debt Capital Market](#)" (February 2024) and in Q3 below, the more recent taxonomies notably from Asia (e.g. Singapore-Asia Taxonomy), seem to address criticism of being static and binary, and better accounting for the transition. As such, they can also serve as a useful resource for issuers and investors to ensure credibility of their transition finance-related activities.

b. **How can activity-level standards or data support decision making and complement other**



**government sustainable finance policies and the use of entity-level data (e.g. as provided by ISSB disclosures or transition plans)?**

*A taxonomy setting activity-level standards can be referenced to demonstrate the level of ambition of CapEx and OpEx measures or green use-of-proceeds bonds under the financial implementation aspect of a transition plan. Entities with homogenous business activities can also reference taxonomy thresholds as an entity-level target or aspiration. Examples of such cases as well as other use cases in the context of the EU Taxonomy can be found in the EU PSF's report "A Compendium of Market Practices (January 2023).*

**2. What are the specific use cases for a UK Taxonomy which would contribute to the stated goals? This could include through voluntary use cases or through links to government policy and regulation.**

*As mentioned above, we believe it would be optimal for the UK to recognise existing leading taxonomies and their voluntary use. In any case, the UK should determine its objective before proceeding with any taxonomy initiative, ensure additionality and interoperability, in line with our response to Q1, if it develops its own initiative, and consider equivalency for other taxonomies in such case.*

*Regarding the use case of a potential future taxonomy, there is consensus that it should be guidance for voluntary use. UK could consider providing in a staged manner some incentives for financial products aligning to its future taxonomy guidance.*

*We note that taxonomies may have different methodologies and structures that are more appropriate for some objectives than others. Project/measure-based taxonomies can be more directly usable by the loan and bond markets, notably through use-of-proceeds instruments, while activity-based taxonomies may require adaptation to this end. For example, the EU Taxonomy adopts an activity-level approach that is better suited to the accounting of taxonomy-aligned revenues and the assessment of investments in general purpose instruments. China's Green Bond Catalogue adopts a white-list measure/project-based eligibility approach that better reflects the project focus of use-of-proceeds instruments. The Singapore-Asia Taxonomy, as a voluntary guidance, is multi-dimensional and provides both activity-level and measures/projects-based criteria for green, green transitional, and amber transitional performance levels, may therefore have a maximized usability for different financing types. See Annex C of the ICMA's report "Transition finance in the debt capital market".*

**a. What are respondents' views on the benefits of the proposed use case (paragraph 2.2)?**

- b. **Are there any other use cases respondents have identified?**
  - c. **How does each use case identified link to the stated goals?**
  - d. **Under these or other use cases, which types of organisations could benefit from a UK Taxonomy?**
  - e. **For each use case identified, do respondents have any concerns or views on the practical challenges?**
  - f. **What is the role for government within each use case identified, if any (i.e. to provide oversight, responsible for ongoing maintenance, implement legislation, including disclosure requirements)?**
3. **Is a UK Taxonomy a useful tool in supporting the allocation of transition finance alongside transition planning? If so, explain how, with reference to any specific design features which can facilitate this.**

*To reiterate, in the absence of government policy measures and incentives (e.g. carbon tax, direct environmental regulation, incentives for decarbonisation, blended finance opportunities), taxonomies and transition plans alike are unlikely to be the driving force of transition finance. See the section “Broader policies to support transition” in ICMA’s report [“Transition finance in the debt capital market”](#) for further reflection.*

*As highlighted in our [response](#) to the UK TFMR consultation, we believe a credible entity-level transition plan would be the backbone of any transition finance advanced to entities, whether in labelled or unlabelled form. We also note that several authoritative sources highlight that the lack of sectoral decarbonisation roadmaps and pathways in different geographies as one of the biggest challenges against the uptake of credible transition finance.*

*Referencing a taxonomy, like a sector-based decarbonization roadmap and pathway, can otherwise support a transition plan disclosure to showcase for example the level of ambition of decarbonization projects and CapEx, use-of-proceeds bonds, etc. Quantitative thresholds in taxonomies can also be referred as an entity-level target setting. See our response to Q1(b).*

*We note that taxonomies were often originally deficient in integrating transition notably by focusing on identifying activities and projects that are – or will be in the medium term – sustainable or Paris-aligned. They were therefore criticised for being potentially static and binary while underestimating the potential of innovation. These concerns are being addressed through both the evolution of early taxonomies and*

novel approaches in later ones. Quantitative performance thresholds provide useful and specific guidance for investors while safeguards to avoid carbon-lock in are a recurrent theme.

ICMA's report "Transition Finance in the Debt Capital Market" (February 2024) provides in Appendix C an overview of the transition-related aspects of leading official sector and market-based taxonomies. Transition characteristics and innovations and lock-in avoidance measures in existing taxonomies include: (i) recognition of interim/amber performance improvements; (ii) direct incorporation of sunset dates and/or forward-looking pathways into technical criteria; (iii) rejection of "amber" categories where green alternatives feasibly exists; (iv) regular reviews and tightening of thresholds and criteria; (v) distinction of eligibility conditions between greenfield and brownfield projects; (vi) requiring entity-level transition plans backing up an activity-level transition; (vii) outright exclusions of some activities and projects (e.g. solid fossil fuels); (viii) activity/project specific technical conditions; and, (ix) implementation focus on CapEx.

Also, ICMA's 2021 report "Overview and recommendations for sustainable finance taxonomies" recommended that a transition-enabled taxonomy would (a) encourage the use of taxonomy thresholds and metrics for forward looking targeting by companies; (b) embed in taxonomies realistic future trajectories/pathways for companies; (c) confirm the acceptability of taxonomy grandfathering; and (d) recognise the use of complementary approaches and metrics outside taxonomies (e.g. alignment with ICMA CTFH, SBTi, CBI standards).

**4. How could the success of a UK Taxonomy be evaluated? What measurable key performance indicators could show that a UK Taxonomy is achieving its goals?**

ICMA's report "Overview and recommendations for sustainable finance taxonomies" (2021) provides success criteria for taxonomies, which should be:

(1) **Targeted:** It is crucial to determine at the outset what a taxonomy is being designed to do. Looking at different jurisdictions, taxonomies can serve a variety of different purposes beyond simply classification, as financial product qualification, disclosure, or risk assessment tools (or a combination of several or all of these).

(2) **Additional:** Jurisdictions should consider first the relevance of the leading international and market-based taxonomies several of which are the result of years of scientific and academic input. Further efforts should concentrate on economic sectors that have the greatest potential to contribute to the local environmental objectives with the greatest priority especially if they are not covered with sufficient detail by international taxonomies.

(3) **Usable:** A taxonomy should be clear on both the embedded methodology as well as how to implement it. If a taxonomy's primary objective is to support sustainable bond market, it should be considered that GSS bonds function with a project/measure-based approach while some official sector taxonomies can be activity-based.

(4) **Open and compatible:** It is important that guidance and recommendations by existing leading initiatives and sources as well as other taxonomies are referenced, while interoperability with those ensured.

(5) **Transition-enabled:** Leading international taxonomies have been criticised for focusing on identifying sustainability thresholds rather than trajectories or pathways. We recommend (a) encouraging the use of taxonomy thresholds and metrics for forward looking targeting by companies; (b) embedding in taxonomies realistic future trajectories/pathways for companies; (c) confirming the acceptability of taxonomy grandfathering; and (d) recognising the use of complementary approaches and metrics outside taxonomies (e.g. alignment with ICMA CTFH, SBTi, CBI standards)

We note that the Singapore-Asia Taxonomy also provides success criteria, which assess the extent to which: a) it is compatible and consistent with other taxonomies; b) new products developed align with the taxonomy; c) regulators reference the taxonomy when approving products or services; d) other frameworks/standards (e.g. green bonds) reference the taxonomy; e) the taxonomy is embedded within frontline regulatory disclosure requirements; f) such disclosure requirements constitute undue burden for corporates; g) providers of data align with the taxonomy.

## Chapter 3

# Key design questions

### Further policy design considerations

3.1 Subject to positive stakeholder responses to proceed with a UK Taxonomy, there are some fundamental design questions to consider that would impact its usability and scope.

## International interoperability

3.2 The government considers international interoperability to be a particularly important factor in any future development of a usable UK Taxonomy. Taxonomies are location specific due to the varying make up of local economies and the different transition pathways between jurisdictions. This makes interoperability challenging. However, ensuring alignment with well-established and common design features across other taxonomies could create an opportunity for a UK Taxonomy to be more useful by facilitating more efficient data comparisons. These common design features, as recommended by the GTAG,<sup>7</sup> include:

1. **Concepts and methodologies: using a recognised taxonomy format and targeted coverage.**

For example, using an established structure of objectives, economic activities in scope, substantial contribution criteria, and a mechanism to ensure that an activity contributing to one environmental objective does not cause significant harm to other environmental objectives.

2. **Metrics and thresholds: using quantified thresholds and recognised, science-based metrics where possible in criteria.** This could include using well known standardised metrics (e.g. emissions thresholds) as well as the same or similar activity names and descriptions and Standard Industry Classification (SIC) codes.

GTAG International Interoperability Report <https://www.greenfinanceinstitute.com/wp-content/uploads/2023/02/GFI-GTAG-INTERNATIONAL-INTEROPERABILITY-REPORT.pdf>

### Box 3.A Questions for respondents

5. **There are already several sustainable taxonomies in operation in other jurisdictions that UK based companies may interact with. How do respondents currently use different taxonomies (both jurisdictional and internal/market-led) to inform decision making?**

*See our response to Q1. We believe it would be optimal for the UK to recognise existing leading taxonomies and their voluntary use. In any case, the UK should determine its objective before proceeding with any taxonomy initiative, ensure additionality and interoperability, in line with our response to Q1, if it develops its own initiative, and consider equivalency for other taxonomies in such case.*

*We note that many European issuers including the UK-based ones have already referenced the EU Taxonomy for their sustainable bond issuance frameworks.*

6. **In which areas of the design of a UK Taxonomy would interoperability with these existing taxonomies be most**

**helpful? These could include format, structure and naming, or thresholds and metrics.**

*We recommend maximum interoperability with other leading taxonomies, as such as the EU Taxonomy and Singapore-Asia Taxonomy.*

*We also recommend avoiding complexity and initially adopting a focused approach notably on the coverage of the environmental objectives, sectors, and activities by applying a materiality filter accounting for the context of the UK economy.*

*Otherwise, as discussed below in Q7, the Singapore-Asia Taxonomy is mostly inspired by the EU Taxonomy for its green performance thresholds, and it is multi-dimensional as it incorporates both activity-level and measure/project-based criteria that could serve for different purposes.*

*We also note that in November 2024, the International Platform on Sustainable Finance released the Multi-Jurisdiction Common Ground Taxonomy to enhance interoperability of taxonomies across EU, China and Singapore. It however adopts the most stringent standard and threshold for 60% of common activities included from these three taxonomies, and as such, it may be perceived as “gold-plated” and face challenges for uptake.*

**7. Are there any lessons learned, or best practice from other jurisdictional taxonomies that a potential UK Taxonomy could be informed by?**

*We note that many European issuers including the UK-based ones have already referenced the EU Taxonomy for their sustainable bond issuance frameworks. While the EU Taxonomy is a comprehensive framework, its usability is however hindered by several factors, notably the granular and strict application of the DNSH principles. ICMA published in 2022 a report analysing the usability challenges of the EU Taxonomy and providing recommendations to improve usability - see “Ensuring the usability of the EU Taxonomy”.*

*In Asia, multi-dimensional approach adopted by the Singapore-Asia Taxonomy can be a useful starting point. For the green ambition level of many activities (including for the transitional ones), the taxonomy aims to ensure 1.5°C aligned pathway and is inspired by the EU Taxonomy thresholds. The Singapore-Asia Taxonomy also incorporates an amber category to foster transition, with several safeguards to prevent lock-in including limiting the amber eligibility mainly to existing assets and infrastructure as well as accompanying sunset dates since transition cannot last forever. It also provides (1) alternative criteria for economic activities and measures/projects with an aim to enhance the usability of the taxonomy for CapEx and green bond issuance and (2) pathways*



*for the anticipated evolution of technical criteria and thresholds, where possible, to ensure visibility for market participants.*

## Environmental objectives and sectoral scope

3.3 Existing taxonomies currently in operation focus on a number of environmental objectives. The most prominent are climate mitigation and climate adaptation, but others include biodiversity and ecosystems, circular economy, pollution prevention and control, and sustainable use and protection of water and marine resources. The government welcomes views on the objectives any future UK Taxonomy should incorporate and on what basis their development should be prioritised.

3.4 Subject to stakeholder feedback on the value and use cases of a UK Green Taxonomy, the government proposes that nuclear energy will be classified as green in any future UK Green Taxonomy (subject to further consultation).

3.5 Some jurisdictions have taken a staged approach to sectoral coverage, with new sectors added over time. There has been feedback on some existing taxonomies that the selective sectoral approach makes it more difficult to use and does not allow for a genuine comparison of investments.

## Do No Significant Harm (DNSH) Principle

3.6 A key component for other taxonomies is a mechanism to ensure that progress against one environmental objective does not cause significant harm to other environmental objectives. This seeks to avoid aligning an economic activity which substantially contributes towards climate change mitigation and/or adaptation, but could cause significant harm to other environmental objectives, risking adverse impacts on the natural environment. For example, it would provide a check that measures to protect against flooding, under an adaptation objective, avoided material damage to a local ecosystem. The government is however mindful that such a mechanism should be usable and proportionate and would like to gather views on how to balance being both user friendly and environmentally robust.

## Business practice safeguards

3.7 Some taxonomies include additional social safeguards relating to basic good business practice which work as an additional due diligence check outside of the economic activity level criteria. The government welcomes feedback on the value of including these safeguards as a condition of taxonomy alignment, or whether these should be separated from a UK Taxonomy, noting that the UK has existing robust requirements to safeguard against human rights abuses and labour exploitation by UK-based business.

## Taxonomy updates over time

3.8 As the UK transitions to net zero and makes progress towards

environmental targets, the government expects that the underlying criteria for economic activities which make a substantial contribution to particular objectives (e.g. climate change mitigation) may change. Any updates to criteria will need to keep pace with scientific, technological, and policy developments in line with the UK's Net Zero and Carbon Budget targets, the Environment Improvement Plan and National Adaptation Programme. This needs to be balanced with maintaining stability of Taxonomy information for the market.

3.9 Other jurisdictions update their taxonomies every three years, and it is likely a UK Taxonomy would require updates to a similar time frame. These updates could include adding new activities, responding to emerging environmental pressures or to reflect a major policy change that affects standards in a particular sector.

3.10 As mentioned in Chapter 2, the inclusion of transitional elements within a UK Taxonomy would likely require a more dynamic framework to reflect how economic activities will change over time. The government welcomes views on the frequency of updates to a UK Taxonomy, whether this would be different when considering transitional activities and how this might affect users of a UK Taxonomy.

## Governance and Oversight

3.11 To support updates to a UK Taxonomy, the government is seeking views on what the desired level of governance and oversight arrangements that could be put in place to ensure a UK Taxonomy maintains credibility as a tool for use in financial markets and across the economy over time.

3.12 Other jurisdictions have created joint industry and government initiatives to develop and maintain taxonomies, or have looked to international organisations to lead taxonomy development. The government welcomes views on governance options for a UK Taxonomy, including views on the role for government, the private sector and non-governmental organisations.

### Box 3.B Questions for respondents

#### 8. What is the preferred scope of a UK Taxonomy in terms of sectors?

*If the UK initiates its own taxonomy, we recommend avoiding complexity and initially adopting a focused approach by evaluating environmental objectives, sectors, and activities through the lens of what is most relevant and material in the UK economy context. This may necessitate a breakdown and analysis of the sectors and activities that are and will be dominant in the UK and their related environmental impact.*

#### 9. What environmental objectives should a UK taxonomy focus on (examples listed in paragraph 3.3)? How should these be prioritised?



See our response above to Q8 on the application of a general materiality lens to account for the UK economy context.

There is nonetheless a consensus that climate change mitigation and adaptation is relevant and present an urgency globally.

**10. When developing these objectives, what are the key metrics which could be used for companies to demonstrate alignment with a UK Taxonomy?**

In line with our previous responses, metrics should be chosen with a view to maximizing interoperability with other leading taxonomies and ensuring the usability of a future UK Taxonomy by for example avoiding exclusive references to the UK legislation as this may not allow the use of the UK taxonomy for international projects or portfolios.

For further background, the recent Multi-Jurisdiction Common Ground Taxonomy presented by the International Platform on Sustainable Finance noted that 33% of common activities from the EU, China, and Singapore Taxonomies were not directly comparable across these three taxonomies. This was more commonly the case in sectors in which local regulations, standards or certifications are conventionally referenced, such as the construction and agriculture and forestry sectors. In such cases, to be aligned with the Common Ground Taxonomy, an activity should meet least one of these three taxonomies' criteria.

We would also recommend the UK to leverage as much as possible the existing international certification schemes (e.g. LEED, BREEAM in the building sector) and standards widely in use when determining its metrics.

**11. What are the key design features and characteristics which would maximise the potential of a UK Taxonomy to contribute to the stated goals? Please consider usability both for investors and those seeking investment. This may include but not be limited to the level of detail in the criteria and the type of threshold (e.g. quantitative, qualitative, legislative)**

In line with our responses to this consultation as well as our report "Ensuring the usability of the EU Taxonomy" (February 2022), we could recommend the following key design features:

- **Well calibrated data requirements:** Firstly, we recommend "reasonable" data requirements, i.e. avoiding overly granular data points to claim taxonomy alignment. Secondly, data requirements should be clear and account for the international nature of markets. This could be achieved, for example, by prioritizing quantitative metrics, leveraging existing and widely used international certification schemes and standards in sustainability, and allowing estimates and proxy assessments when

data cannot otherwise be produced or obtained based on common and clear guidelines. Accordingly, we would recommend avoiding references to UK-specific testing criteria or legislation. Lastly, proportionality can be ensured based on a simplified assessment framework for SMEs and smaller projects.

- **Transition-enabled:** See our responses to both Q3 and Q4. Also, where relevant and possible, we recommend incorporating forward-looking pathways into the criteria for enhanced visibility on the future evolution of thresholds.
- **Multi-dimensional:** We would recommend that UK consider proving qualification criteria both for economic activities and measures/projects. This could open the taxonomy to various uses by market participants. See as an example Singapore-Asia Taxonomy.

**12. What are respondents' views on how to incorporate a Do No Significant Harm principle, and how this could work?**

The UK should take a well calibrated and proportionate approach towards the DNSH and minimum safeguard principles, which have been one of the most challenging areas against the usability and implementation of the EU Taxonomy.

In general, the DNSH and MS test should rely on a risk-based assessment and avoid excessively costly processes and detailed data requirements.

The UK could also consider developing a practical list of proxies to determine compliance with the DNSH and MS principles, which could include:

- Presence of adequate entity-level processes to avoid material ESG risks. The Green Bond Principles also adopt a process-based approach on the DNSH and MS principles. Accordingly, a green bond issuer should communicate complementary information on processes by which it identifies and manages perceived E/S risks associated with the relevant project(s) while being also encouraged to have a process to identify mitigants to known material risks of negative E/S impacts from the relevant project(s).
- Presence of regulatory environmental and social permits for the projects and activities in question, as relevant;
- Absence of any proof that the issuer is in violation of local laws and regulations; and,
- Absence of controversies (and if relevant, presence of remediation and/or compensation plans).

**13. It is likely a UK Taxonomy would need regular updates, potentially as often as every three years.**

- a. **Do you agree with this regularity?**
- b. **Would this pose any practical challenges to users of a UK Taxonomy?**

c. **Would this timeframe be appropriate for transition plans?**

*The dynamic aspect of the taxonomy is necessary and welcome as it reflects the need to adjust the TSC to both technological and scientific developments and the UK economy's actual progress towards sustainability objectives.*

*Nonetheless, we note that real economy actors need time to adjust to a new framework since implementation of a taxonomy takes time. The UK should look to ensure a balance between stability and evolution of the criteria to accommodate an increasing environmental ambition.*

*For financial products such as green bonds, the changes to the criteria may give rise to a grandfathering issue, as we have explained in our report "Ensuring the usability of the EU Taxonomy". The remedy to the situation is to recognise the grandfathering of taxonomy alignment obtained for the financial instrument at a point in time.*

*The UK could also consider incorporating pathways into the technical criteria or as additional guidance to enhance visibility on how the criteria and thresholds are expected to evolve over time.*

*We also see value in aligning the expected timeline for the tightening of taxonomy with the frequency recommended for corporates' updating of their transition plans.*

14. **What governance and oversight arrangements should be put in place for ongoing maintenance and updates to accompany a UK Taxonomy?**

*We recommend at least a formalized process for stakeholder engagement for the development, maintenance, and updates of the taxonomy as well as both general consultations and targeted consultations with relevant sectors.*

## Responding to the consultation

3.13 This consultation will be open for 12 weeks from 14 November 2024 until 6 February 2025.

3.14 There are several ways to respond to this consultation. Please follow <https://www.smartsurvey.co.uk/s/LTA2HK/> to complete as a smart survey. Alternatively, enquires and responses can be sent to [taxonomyconsultation@hmtreasury.gov.uk](mailto:taxonomyconsultation@hmtreasury.gov.uk).

3.15 All responses will be analysed in depth, but it will not be possible to give substantive replies to individual representations.

# Chapter 4

## Privacy notice

### Processing of personal data

This section sets out how we will use your personal data and explains your relevant rights under the UK General Data Protection Regulation (UK GDPR). For the purposes of the UK GDPR, HM Treasury is the data controller for any personal data you provide in response to this consultation.

### Data subjects

The personal data we will collect relates to individuals responding to this consultation. These responses will come from a wide group of stakeholders with knowledge of a particular issue.

### The personal data we collect

The personal data will be collected through email submissions and are likely to include respondents' names, email addresses, their job titles and opinions.

### How we will use the personal data

This personal data will only be processed for the purpose of obtaining opinions about government policies, proposals, or an issue of public interest.

Processing of this personal data is necessary to help us understand who has responded to this consultation and, in some cases, contact respondents to discuss their response.

HM Treasury will not include any personal data when publishing its response to this consultation.

### Lawful basis for processing the personal data

Article 6(1)(e) of the UK GDPR; the processing is necessary for the performance of a task we are carrying out in the public interest. This task is consulting on the development of departmental policies or proposals to help us to develop effective government policies.

### Who will have access to the personal data

The personal data will only be made available to those with a legitimate business need to see it as part of consultation process. The key departments with an interest in this consultation are Department for Energy Security and Net Zero, Department for Environment, Food and Rural Affairs and the Department for Business and Trade.

We sometimes conduct consultations in partnership with other agencies and government departments and, when we do this, it will be apparent from the consultation itself. In this case, this includes Smart Survey as our chosen data processing platform provider, working under instruction from HM Treasury. For these joint consultations, personal data received in responses will be shared with these partner organisations in order for them to also understand who responded to the consultation.

As the personal data is stored on our IT infrastructure, it will be accessible to our IT service providers. They will only process this personal data for our purposes and in fulfilment with the contractual obligations they have with us.

### How long we hold the personal data for

We will retain the personal data until work on the consultation is complete and no longer needed.

### Your data protection rights

Relevant rights, in relation to this activity are to:

- request information about how we process your personal data and request a copy of it
- object to the processing of your personal data
- request that any inaccuracies in your personal data are rectified without delay
- request that your personal data are erased if there is no longer a justification for them to be processed
- complain to the Information Commissioner's Office if you are unhappy with the way in which we have processed your personal data

### How to submit a data subject access request (DSAR)

To request access to your personal data that HM Treasury holds, please email: [dsar@hmtreasury.gov.uk](mailto:dsar@hmtreasury.gov.uk)

**HMT Data Protection Officer (DPO)**  
Correspondence & Information Rights Team  
Corporate Centre Group  
1 Horse Guards Road  
Westminster  
London  
SW1A 2HQ  
United Kingdom

## Complaints

If you have concerns about Treasury's use of your personal data, please contact our Data Protection Officer (DPO) in the first instance at: [privacy@hmtreasury.gov.uk](mailto:privacy@hmtreasury.gov.uk)

If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner at [casework@ico.org.uk](mailto:casework@ico.org.uk) or via this website: <https://ico.org.uk/make-a-complaint>.

## Consultation principles

This consultation is being run in accordance with the government's consultation principles, which are available on the Cabinet Office website: Consultation principles: guidance - GOV.UK ([www.gov.uk](http://www.gov.uk))

If you have any comments or complaints about the consultation process, please contact the Consultation Co-ordinator.

## **HM Treasury contacts**

This document can be downloaded from [www.gov.uk](http://www.gov.uk)

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

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