

IIGCC response to His Majesty's Treasury (HMT) consultation on UK Green Taxonomy

Executive Summary

- **The Institutional Investors Group on Climate Change (IIGCC) welcomes the opportunity to respond to His Majesty's Treasury's (HMT's) consultation on the UK Green Taxonomy.** Following our participation in the Green Technical Advisory Group (GTAG), which provided constructive advice on the development and design of a potential UK Green Taxonomy, we recognise the significance of making headway on this important question.
- **The swift implementation of a sustainable finance framework in the UK is a priority for IIGCC members.** We need to rapidly implement core sustainable finance policies to increase transparency and support the reorientation of capital towards the UK's climate and nature objectives. This transparency is vital for instilling investor confidence and directing capital towards decarbonisation efforts.
- **There is a value case for Taxonomies, including in the UK policy context.** Taxonomies help assess the sustainability of activities and projects against science-based criteria. They help to address greenwashing and increase transparency over climate solutions, all of which should help to facilitate investment in the transition to a net zero economy. Specifically, they:
 - Help prevent greenwashing. Taxonomies set a clear and specific expectation of what will be required for an activity to be compatible with the transition to a net zero global economy by mid-century. Investors have a clear understanding of how to channel capital towards green investment products.
 - Constitute a core activity-level component of entity-level transition plans. They can help evaluate whether a company is deploying sufficient capital expenditure (capex) to achieve the forward-looking targets set out in transition plans. Given that the UK is moving ahead with enhanced transition plan disclosures this year, which will likely be based on the disclosure frameworks produced by the Transition Plan Taskforce (TPT), a Taxonomy could help to inform these disclosures. For example, the [TPT's framework](#) cites them as a useful basis for assessing a reporting entity's products and services and how these support the achievement of transition plans.
 - Spur green investment by providing clear and consistent green metrics across the industry. Taxonomies are a vital tool to help identify climate solutions in the context of capital mobilisation. Classifying and measuring allocation to climate solutions has been challenging to date. Taxonomies provide a standardised framework that can help address that challenge.

- **A Taxonomy is only one tool amongst many that we need on the path to net zero.** It needs to be coordinated with other policies and tools that will also support the UK's transition, particularly real economy policies that will materially accelerate decarbonisation and growth.
 - Real economy policy has an indispensable role in creating the necessary incentives and price signals to reorient capital towards decarbonisation at pace and scale. It should be central to the government's mission to create a net zero economy.
 - Robust transition plans, anchored by sector roadmaps that set out how the UK economy will transition, can provide the basis for a more dynamic and holistic regulatory framework to accelerate the UK's transition. It is important that the government prioritises resource in this area and acknowledges the trade-offs and costs when expending resource on a Taxonomy.
 - A Taxonomy in and of itself would not significantly change the transition and shift financial flows – real economy barriers are the main obstacle.
- **The case for a Taxonomy needs to be considered within the context of the wider policy and regulatory landscape.**
 - Given the high-level nature of the consultation and the time it will take to analyse the submissions from external stakeholders, it may take years before a UK Green Taxonomy materialises and is implemented. This delay calls into question how additive exploring a UK Green Taxonomy would be at this stage, particularly given the resource required to introduce it.
 - The government would need to monitor and keep updating resources, requiring significant continuous investment to uphold the Taxonomy. The opportunity cost in terms of government policy resources should be considered, as it goes beyond simply setting up the Taxonomy.
- **That said, we believe a UK Green Taxonomy has a role to play in the sustainable finance landscape to classify green investments and facilitate the flow of capital towards green solutions. Taxonomies have an important use case.** We have set out four approaches to a UK Green Taxonomy below, with an evaluation of each option:
 - **Option 1: Onshoring the EU Taxonomy.** This would help with interoperability with the most widely used Taxonomy currently available but may be challenging to implement politically and is specific to the EU regulatory landscape. It would also not be tailored to the specifics of the UK economy.
 - **Option 2: Creating a UK Green Taxonomy that replicates the EU Taxonomy's structure, including taking forward the suite of recommendations made by GTAG on how to enhance the usability of key components of the framework.** This would ease some of the implementation challenges that have been identified by investors and corporates while promoting interoperability. However, it could still 'bake in' some elements of the EU Taxonomy that may be undesirable to replicate.

- **Option 3: Creating a UK Green Taxonomy that aligns with the overarching framework of the EU Taxonomy but takes a different approach to criteria and is more principles-based.** This would help address some concerns around the prescriptiveness of a Taxonomy while ensuring that the benefits of a classification, disclosure and transparency tool are in place. It could, for example, facilitate the Technical Screening Criteria (TSC)-aligned approach outlined in the [IIGCC Climate Solutions Guidance](#). This could also be a better option for ensuring interoperability with international standards.
- **Option 4: Recognise the role and use of Taxonomies in the context of wider sustainable finance frameworks without prescribing any one specific approach.** This could include other Taxonomies developed by policymakers or market-based/proprietary taxonomies. They offer considerable flexibility to take different approaches relevant for sectors/regions, and can also leverage reporting from elsewhere, reducing burdens. However, they lack a consistent and comparable framework in contrast to the options set out above.
- We look forward to continuing to engage with the government on the future policy and regulatory landscape to ensure investors can play a critical role in facilitating the transition to net zero.

Detailed Q&A

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 channeling capital and preventing greenwashing?

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

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)?

Taxonomies play an important role in channeling investments into sustainable economic activities and preventing greenwashing. A UK Green Taxonomy would help create a structured sustainable policy environment with clarity, predictability and incentives to drive transitional activities and combat greenwashing. It should be viewed in the wider policy context that helps to facilitate financial flows and supports the UK's sustainability objectives in the main following ways:

- Acting as an input to project and business finance decisions, providing consistent standards to allow meaningful comparisons over time. It is a distinctive tool to help classify types of investment at the asset level and can help inform strategic asset allocation.
- Acting as a component of entity-level transition plans and International Sustainability Standards Board (ISSB) disclosures. This is particularly important as the UK is set to move ahead with enhanced transition plan disclosures and the introduction of Sustainability Disclosure Standards (SDS) that build on standards. The use of Taxonomy-aligned capex is a very important forward-looking metric to evaluate the sustainability of corporate plans.
- Helping to tackle greenwashing and identify climate solutions for funds under the Sustainable Disclosure Requirements (SDR) framework and metrics for green bond standards. A Taxonomy can serve as a criterion for sustainability-focused funds under the SDR, providing an example of 'an authoritative taxonomy' referenced by the Financial Conduct Authority (FCA) as a credible standard of sustainability. Investors can also leverage Taxonomies and the resulting metrics on green revenues and green capital expenditure to support more robust, comparable target-setting for the climate solutions components of their net zero transition plans.

It is important to note that a Taxonomy is one tool amongst many and needs to be situated in the wider policy context. Channelling green capital at scale in the UK will require a supportive real economy policy framework. This will help create the right incentives and send the right price signals to encourage real economy decarbonisation.

The creation of sectoral roadmaps that lay out how key sectors of the economy will transition lies at the heart of this approach. This would also be underpinned by policy frameworks including measures to attract private investment and remove barriers to deployment of clean technologies at scale. These do not constitute alternative policies but are complementary to the existence of a Taxonomy.

Taxonomies play a distinct role and should be referenced across these different pieces of the framework. For example, they will be linked to transition plans, entity-level disclosures and sectoral roadmaps. But other supporting policies will drive real economy decarbonisation and shift capital flows at a greater pace and scale.

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.

a) What are respondents' views on the benefits of the proposed use case?

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 (i.e. to provide oversight, responsible for ongoing maintenance, implement legislation, including disclosure requirements)?

A Taxonomy is a useful instrument that plays a distinct role in providing transparency around the sustainability of investments at the activity level. Although various other initiatives have been introduced since 2021 or will be introduced imminently in the UK such as the creation of UK SDS or transition plan disclosure requirements, a UK Green Taxonomy has a clear role in the wider framework.

Below, we outline the main ways it can contribute to the goals of transparency, reduction of greenwashing, and reorienting of capital flows:

- Corporates:**

- Supporting corporates with the development of transition plans, particularly Taxonomy-aligned capital expenditure. Metrics like capital expenditure (capex) can help support transition finance, moving beyond current performance and looking at how future spending will align with net zero.**

- **Investors:**

- Supporting investor assessments of climate solutions. Investors can leverage Taxonomies and the resulting metrics on green revenues and green capital expenditure to support more robust, comparable target-setting for the climate solutions components of their net zero targets. This is also a main alignment goal under the [Net Zero Investment Framework \(NZIF\)](#) which is the most widely implemented guidance by investors to set individual targets and produce related net zero strategies and transition plans.
- Supporting investor stewardship and engagement. Investors can use the Taxonomy to help inform engagement objectives related to climate change, issuer transition plans and Taxonomy alignment, holding issuers accountable and supporting their transition.

- **Policymakers:**

- Supporting the assessment of opportunities/solutions that are more tailored to the specifics of the UK economy. A UK-specific Green Taxonomy would reflect the specific circumstances in a UK context, utilising the work done by the independent [Land Use, Nature and Adapted Systems \(LNAS\) Advisory Group](#).
- Helping with public finance assessments. It can be used as a tool for identifying opportunities for targeted public finance and tracking financial flows toward sustainable investments.

We recommend that any implementation of a Taxonomy, including on an initially voluntary basis, should become mandatory over a reasonable timeframe to ensure a significant uptake of the framework.

However, Taxonomies are not the only tool for sustainable finance, and the UK still urgently needs to implement several wider, core components, including transition plan disclosures and SDS for real economy corporates and other demographics. The use case of a UK Green Taxonomy needs to be framed by the wider policy environment to drive change and deliver on stated objectives. It would also take time to implement a dedicated UK Green Taxonomy at this stage, and there will be implementation challenges. These factors need to be considered if a UK Green Taxonomy is to be developed.

The role of the government is to ensure oversight and effective implementation of the Taxonomy. The government could put the Taxonomy on a statutory footing to ensure widespread, comparable reporting. It would also work with other regulators such as the FCA to consider the oversight of 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.

It is vital that a UK Green Taxonomy is an enabler of transition finance to ensure it can facilitate an economy-wide transition consistent with the Paris Agreement goals. As was set out in the [Transition](#)

[Finance Market Review \(TFMR\)](#) last year, the need for transition finance is particularly important to support the decarbonisation of high-emitting sectors such as heavy industrial sectors, energy and agriculture.

The EU Taxonomy is already being used as a tool for transition finance. Specifically, Taxonomy users disclose what percentage of capex is Taxonomy-aligned, helping companies estimate what percentage of future expenditure is aligned with green economic activities. This helps explain how financing decisions are supporting real economy transition objectives.

For example, in May 2024 [the EU estimated](#) that capital investments into Taxonomy-aligned activities increased in 2024 compared to the previous year. Around 600 European companies reported capital investments into Taxonomy-aligned activities of €191bn in 2023, while companies had already reported €249bn in the first five months of 2024.

The transitional activity category in the EU Taxonomy also promotes transition finance. Transitional activities must contribute to climate change mitigation and only qualify where the following conditions are met: there are no technologically or economically feasible low-carbon alternatives; greenhouse gas (GHG) emission levels correspond to the best performance in the sector or industry; and the activity does not lead to carbon lock-in or hamper the development and deployment of low-carbon alternatives. This helps ensure the EU Taxonomy does not lock in or hamper the development of low carbon alternatives and carves out a role for transition finance.

A Green Taxonomy adopted in the UK could seek to build on the EU's approach and further enhance some elements to ensure it does not block the deployment of capital in transitioning entities.

However, it is important to note that alongside a Taxonomy, real economy policies lie at the heart of the government's efforts to accelerate the decarbonisation of high-emitting and hard-to-abate industries. Some policies that can help scale up transition finance include more granular national and sectoral pathways and planning via the reinstated Net Zero Council, as well as macro-policy levers, including subsidies, incentives, and carbon pricing.

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?

A Taxonomy's success can be evaluated against the objectives and success metrics set out below:

- Increasing transparency over climate-related investments: This can be evaluated by greater disclosure of Taxonomy-aligned revenue and capex, including in the context of sustainable investments in funds.

- Mitigating greenwashing: Science-based criteria that would need to ratchet up over time and avoiding the politicisation of the process would be integral to make material progress to crack down on greenwashing.
- Reorienting capital towards sustainable activities: Tracking financial flows, particularly capex, would help evaluate progress against this objective. We recognise it is difficult to assess the extent to which the Taxonomy is driving these changes as opposed to wider real economy policies.

Feedback from industry is also critical to understand implementation challenges, and how well the Taxonomy is working on the ground.

The Taxonomy will not be able to drive progress against the above goals on its own. We recommend that the government evaluates the policies that will have biggest cost/benefit ratio. The above options provide some KPIs that can help assess the extent to which the Taxonomy is helping meet climate objectives.

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?

The international disclosure landscape is complex and convoluted. Investors need clear signals on the approach the government will take with regulation and interoperability of frameworks across the jurisdictions they operate in. Thus, alignment with existing Taxonomies and creating the ability to report across multiple jurisdictions is crucial if the UK decides to introduce a Green Taxonomy.

Many UK asset managers, particularly those with mandates from European-based asset owners, will already be required to report using the EU Taxonomy and increasingly Taxonomies in other jurisdictions (e.g. Singapore). GTAG [estimates](#) that 80% of UK-listed firms and all UK investors who market products to European clients will need to conform to the EU Taxonomy. This will lead to an increased reporting burden and higher costs for investors. Investors would benefit from seeing the parameters in the EU's agreed framework applied to UK listed companies, with consistency on naming and metrics being most helpful.

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.

If a Green Taxonomy were to be introduced in the UK, we would propose adopting the same broad concepts, methodologies and metrics as the EU Taxonomy where possible. The government would then promote alignment of concepts, methodologies and metrics to ease international interoperability for new Taxonomies. We are supportive of the recommendations GTAG has set out, proposing a similar structure on technical standards:

- Concepts: Align concepts by having the same environmental objectives and framework, and same underlying industry sectors.
- Methodologies: Follow the significant contribution, Do No Significant Harm (DNSH) and minimum safeguards (MS) methodology.
- Metrics: Use the same systems of measurement for each activity as far as possible, making sure the same data is required even if thresholds vary.
- Thresholds: Use the same threshold for each metric unless there is a good and significant reason for not doing so.

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

Numerous challenges have followed the implementation of the EU Taxonomy. We set out the main ones below, and suggest they inform the UK's approach to creating a UK Green Taxonomy

DNSH criteria as drafted in the EU have been challenging due to the number of criteria which are inconsistent, repetitive and difficult to measure and understand due to ambiguity in drafting. The government should streamline the EU DNSH criteria, while revising them for the UK context to improve the usability of DNSH reporting.

Furthermore, the inability to disclose partially aligned or TSC-aligned activities reduces transparency over potential climate solutions. The UK should improve the transparency of Taxonomy disclosures by adopting an approach that enables companies with activities that are not fully Taxonomy-aligned, but meet the substantial contribution and some DNSH criteria, to disclose the extent to which they meet the DNSH criteria.

Compounding this, the lack of data availability undermines the Taxonomy's use as a tool to inform sustainable investment strategies. Sequencing mandatory disclosures correctly can ensure that sufficient information is available to those making taxonomy disclosures.

A UK Green Taxonomy would also benefit from an expansion of activities it covers. The inclusion of sectors like agriculture will mean a UK Green Taxonomy helps increase private investment into agriculture in a way aligned with the net zero transition.

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

While we recommend an alignment with the EU approach, we want to stress the need to ensure the sectors covered in a potential UK Green Taxonomy are high impact and make up, in aggregate, the bulk of UK emissions. Prioritising sectors that account for the largest sources of GHG emissions in the UK – such as transport, buildings and industry – will help accelerate the UK's decarbonisation efforts. We also want to

note the importance of including agriculture given its role in climate adaptation efforts and the importance of challenging private investment into sustainable agriculture.

9. What environmental objectives should a UK taxonomy focus on? How should these be prioritised?

We recommend that a UK Green Taxonomy replicates the EU approach, covering six environmental objectives overall and prioritising in the first instance the development of activities and criteria contributing to climate-related objectives (mitigation and adaptation). This would also help with interoperability.

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

We would propose drawing on the same metrics that are included in the EU Taxonomy for companies and financial market participants to disclose against, namely turnover, capex and operational expenditure (opex). This would also help with interoperability purposes.

Capex remains the most potent tool in assessing how future investment plans are aligned with the net zero transition. Increased transparency over capex can accelerate investments by companies into green solutions. Green capex will become more available with increased disclosure requirements such as IISSB standards.

Turnover is valuable in evaluating current expenditure but being backward-looking means it risks incentivising investment in only those corporates already providing recognised climate solutions. Opex is a less valuable insight for investors in assessing the sustainability performance of investee companies and could be made an optional indicator if a UK Green Taxonomy is introduced, to reduce reporting burdens.

Although these KPIs are useful in evaluating the success of a Taxonomy, we would recommend focusing on capex and turnover and making opex disclosure optional as set out by GTAG.

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)

A mix of quantitative, qualitative, legislative criteria can enable the Taxonomy to catalyse the net zero transition. Underpinning this is the need for the Taxonomy to be practical to implement, clear, and science-based.

Quantitative and qualitative criteria would ideally be measurable, and limit inconsistencies, ambiguity, duplication or other usability issues that make it difficult to implement and assess activities. Avoiding complex and subjective language will aid that process.

Moreover, common overarching design elements and features e.g. objectives and TSC would facilitate interoperability. Avoiding tying the UK Green Taxonomy too closely to UK legislation would also help enhance interoperability and comparability.

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

We are supportive of the recommendations set out in the [GTAG paper](#) on 'Streamlining and increasing the usability of the DNSH criteria within the UK Green Taxonomy.' These would help enhance the transparency of Taxonomy disclosures, improve their usability and capture useful information for the market.

The main changes would revolve around altering the EU's approach to DNSH criteria disclosure, whereby failing to demonstrate compliance with one DNSH criteria means no alignment can be claimed. Companies with activities that are not fully Taxonomy-aligned but meet the substantial contribution and some DNSH criteria would be allowed to disclose the extent to which they meet the DNSH criteria. This could be done by:

- Limiting the binary nature of the tests, including assessing the feasibility of disaggregated Taxonomy disclosure and a proportionate risk-based due diligence approach or a 'comply or explain' DNSH approach.
- Considering where flexibility on disclosure requirements may be required e.g. where sufficient methodologies have not been developed and where projects are innovative or complex.

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?

A UK Green Taxonomy would require regular updates to account for the changing developments in emerging technologies and the dynamic nature of transition activities. Three years would be a sensible time to align with the EU approach and strike a balance between usability and the need to reflect a changing landscape. A similar timeframe would also be appropriate for corporates to review progress on transition plans.

We would also propose the inclusion of a mechanism to a Green Taxonomy to make changes to respond to significant technological developments. This would be critical to avoid blocking the deployment of capital if/when new green tech opportunities arise between these three-year review windows.

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

We support the creation of an arms-length advisory body to enable the Taxonomy's implementation in the short-term. HMT would have overall oversight of the body which would be responsible for day-to-day issues such as updates to the TSC and stakeholder engagement. We would also endorse the government giving statutory powers to the body over the medium to long term.

We would also suggest a focus on formalised, open and transparent channels for stakeholder engagement with the advisory body which includes a stakeholder request mechanism. This was also adopted by the EU and can help ensure stakeholders are able to submit suggestions regarding the usability of the Taxonomy and ask clarification and implementation questions.