

UK Green Taxonomy

Consultation

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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.¹ 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

¹ <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.²

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)³ and the Transition Plan Taskforce Disclosure Framework⁴ 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

² Industrial Strategy Green Paper

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

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

⁴ 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)⁵:** The government has welcomed this Review, which was focused on assessing how the UK can become the best place to raise transition capital,

⁵ 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.⁶ 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

⁶ 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?
 - 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)?
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 (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.
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?

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,⁷ 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.

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

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.

3.7 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

3.8 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

3.9 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.

3.10 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.

3.11 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

3.12 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.

3.13 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?
9. What environmental objectives should a UK taxonomy focus on (examples listed in paragraph 3.3)? How should these be prioritised?
10. When developing these objectives, what are the key metrics which could be used for companies to demonstrate alignment with a UK Taxonomy?
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)
12. What are respondents' views on how to incorporate a Do No Significant Harm principle, and how this could work?
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?
14. What governance and oversight arrangements should be put in place for ongoing maintenance and updates to accompany a UK Taxonomy?

Responding to the consultation

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

3.15 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.

3.16 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

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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

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 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)

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

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

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