PRI RESPONSE

THE VALUE AND USE CASE OF A UK GREEN TAXONOMY

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PRI Association

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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the UK government's call for feedback on the value and use case of a UK Green Taxonomy.

ABOUT THIS CONSULTATION

The UK government has launched a consultation, seeking to gather views on the value case of a UK Green Taxonomy as part of the UK's wider sustainable finance framework. This consultation will inform an assessment of the value of implementing a UK Green Taxonomy, and how it can support objectives of mitigating greenwashing and channelling capital in support of the government's sustainability objectives. With ambition to be a world leader in sustainable finance, the consultation seeks views on whether a UK Green Taxonomy would be additional and complementary to existing sustainable finance policies.

The UK government announced its intention to consult on a Green Taxonomy in 2021, however uncertainty in the UK's approach has followed. During this time, PRI has published a toolkit on taxonomies of sustainable economic activities and engaged bilaterally with policymakers and multilateral organisations to support taxonomy development processes across jurisdictions, notably in Australia, Singapore, and the EU.

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KEY RECOMMENDATIONS

The PRI welcomes the UK government's consultation on the value and use case of a UK Green Taxonomy. Assessing the role of a taxonomy in the context of the UK's wider regulatory framework is a sensible approach to ensuring the objectives, approach, and criteria of a potential taxonomy meets the UK's specific market needs.

The PRI's key recommendations are below.

- Develop a UK specific Green Taxonomy, based on the EU's Taxonomy framework. **Global alignment** is an operational imperative, so a UK specific Taxonomy would need to be interoperable with the EU Taxonomy.
- Embed a UK Green Taxonomy into the **UK's wider sustainable finance framework**, such as sustainability-related financial disclosures, transition plan requirements, corporate disclosures, public finance instruments, and stewardship instruments.
- **Real economy policies and sectoral pathways will provide the enabling environment** for investors to allocate their funds in line with sustainability goals, and a UK Green Taxonomy can serve as **a source of investment ideas and opportunities to complement real economy policies.**
- Draw on the **Common Ground Taxonomy, the G20 Sustainable Finance Working Group (SFWG) Principles,** the **COP29 Roadmap** for advancing interoperability and comparability of sustainable finance taxonomies, and the United Nations Environment Programme Finance Initiative (UNEP FI), Climate Bonds Initiative, and PRI's **collaboration** to support taxonomy efforts around the world as a basis for ensuring a UK specific Green Taxonomy is interoperable with the EU, China, and other jurisdictions.
- The principles that should inform the UK's approach to the taxonomy should be **clarity** on near-term policy actions and scope of green activities defined**, robust and science-based** criteria consistently applied**,** and **interoperability.**
- A UK specific Green Taxonomy should be based on **international environmental and climate agreements** that the UK supports; be underpinned by **science-based information including alignment to a 1.5C trajectory**; be informed by **local commitments and strategies** on environmental objectives, including the UK's response to international agreements or the UK's leadership on an objective.

DETAILED RESPONSE

The PRI sat on the UK's Green Technical Advisory Group (GTAG) – an independent expert group established to provide non-binding advice to the UK government on market, regulatory and scientific considerations for developing and implementing a UK Green Taxonomy.

Whilst the PRI contributes to and supports GTAG's suite of advice on a UK Green Taxonomy, our response to this consultation is independent from GTAG and based on PRI's analysis and engagement with our UK Regional Policy Reference Group (RPRG).

Since first announcing an intention to consult on a UK Green Taxonomy in 2021, the UK has been cautious and considered in its approach, focusing on overcoming usability challenges and learning from the efforts of those implementing taxonomies in other jurisdictions. There are now over 50 taxonomies in development or implemented worldwide, with 14 out of 20 G20 countries developing or implementing taxonomies. This would leave the UK as one of the only developed economies in the G20 not to have a taxonomy.

Question 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 **clear, consistent and enabling policy environment** is critical to the viability of the transition to net zero, and **successful policy implementation** will help minimise risks to the real economy and the wider financial system.[1] Effective real economy frameworks will be central to support the goals of channelling capital into the transition. A taxonomy should reflect this framework and can serve as **a source of investment ideas and opportunities to complement real economy policies.**

Taxonomies are just one element of the framework to enable the economic transition. Their role is to define what activities can be considered environmentally and socially sustainable and to provide the basis for policy measures directed at supporting or encouraging these activities. To this end, through greater clarity on what is green and/or a sustainable activity, and under which criteria, a taxonomy can **alleviate the risk of greenwashing and facilitate more effective capital allocation decisions aligned with investor preferences.**

Importantly, taxonomies will only cover a subset of the activities that comprise the economy as a whole. Governments will also need to take action to manage these other activities through, for example by mitigating their negative social or environmental impacts or through encouraging investment in more socially or environmentally sustainable activities.

The role of real economy policy

[1] Green Technical Advisory Group (GTAG) Closing statement from the Chair of the GTAG (2023)

Real economy policy and sustainable finance policy are complementary. **Real economy policies – which can be broadly understood as policies that aim to generate a direct positive impact on the climate, the environment and society by addressing economic externalities and building markets for solutions – provide the enabling environment** for investors to allocate their funds in line with sustainability goals. As highlighted in the Transition Finance Market Review, the market works within the parameters set by policy, law and regulatory action, i.e. the regulatory environment. Finance follows incentives in the real economy, as that is what drives the perception of future returns.

Therefore, real economy policies are central to driving an economy-wide transition, to create the incentives and provide an adequately low-risk operating environment within which private finance can allocate capital efficiently.[2] The starting point for increasing financial flows is for policy makers to set out clear policy objectives, e.g. via Nationally Determined Contributions (NDCs) and how they intend to achieve them, e.g. via sectoral roadmaps. Following this, policy makers can establish policies to attract private capital and remove barriers to deployment of clear technology.

Sectoral pathways with clear roadmaps for decarbonisation will be necessary for determining whether investments in activities are aligned with climate goals and science-based transition pathways. This can offer long-term visibility to companies and investors on transition risks and opportunities, and even provide clarity on the size of transition investment opportunities in various industries. Sectoral policies are needed to send price signals to markets and increase the pipeline of targeted investable opportunities in key industries are currently insufficient.[3]

As highlighted in PRI and IIGCC's policy briefing on key sustainable finance policy priorities for the UK, the government should produce comprehensive sector roadmaps (aligned with the UK's legally binding short, medium and long-term targets) to provide investors with the necessary detail as to how key sectors of the UK economy will transition, by when, and the policy tools and levers available to support and accelerate their transition. These pathways should set out the investment roadmaps required to unlock private investment, and associated tax, spending and regulatory/policy commitments to incentivise demand.

The UK's sustainable finance policy landscape

As the government has highlighted within the consultation, the UK has made considerable progress on its wider framework of sustainable finance policies. A credible, science-based taxonomy is currently lacking, but its implementation would have wider benefits for the UK's regulatory framework.

A joined-up approach is needed to create a strong, integrated framework for a sustainable financial system with aligned policy steers. There should be clarity on how a future UK Green Taxonomy, ISSB standards, and TPT disclosures will be integrated into the FCA's SDR regime. A UK Green Taxonomy should be **anchored in regulation with mandatory disclosures**, supporting assessment of transition efforts at the activity-level in a way that complements company-level transition plans.[4]

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[2] Energy Transitions Commission, Financing the Transition: How to Make the Money Flow for a Net-Zero Economy (2023)
[3] Climate Change Committee (CCC) (2023) 2023 Progress Report to Parliament, International Energy Agency (IEA) (2023) The Oil and Gas Industry in Net Zero Transitions, Intergovernmental Panel on Climate Change (IPCC) (2023) Sixth Assessment Report
[4] PRI and IIGCC joint briefing on key sustainable finance policy priorities for the UK (2024)

There is opportunity to embed a sustainable taxonomy into:

- **Sustainability-related financial disclosures**, that require an evidence-based sustainability performance benchmark to assess sustainability claims, such as the FCA's Sustainability Disclosure Requirements regime, with a focus on increasing capital flows towards sustainable activities. The EU taxonomy currently serves as a placeholder for this credible standard of sustainability while the UK settles on its approach to a UK Green Taxonomy.
- **Transition plans**, notably to inform financial planning, such as the pending consultation on taking forward the government's manifesto commitment on transition plans. A taxonomy could support the assessment of transition efforts at the activity level in a way that complements company-level transition plans. Analysis by CDP and Clarity AI shows that on a sample of 1,700 companies subject to Non-Financial Reporting Directive (NFRD) reporting on the EU taxonomy found that around 600 companies referenced the EU taxonomy as part of their financial planning and transition plans.[5]
- **Corporate disclosure**, as mandating use of the taxonomy by companies for these purposes would improve consistency and lend credibility to these disclosures.
- Public finance instruments, such as the **National Wealth Fund**. A taxonomy could assess whether public investments make a significant contribution to climate change mitigation and adaptation, helping to classify the sustainability and impact of investments.
- **Stewardship instruments**, where a taxonomy would offer a framework for investors to engage with corporate to reduce adverse impacts and increase positive sustainability outcomes.

To ensure the efficient flow of information across the investment chain, **careful consideration of sequencing is key, alongside clear implementation timelines and further granularity,** which a taxonomy can provide.[6]

Investors require standardised and decision-useful disclosures from their investees to inform capital allocation, including key data on sustainability related risks and opportunities. Consideration should be paid to the **operational interaction of reporting requirements across the UK**. For example, comprehensive and comparable implementation of and reporting against climate transition plans is essential for investors to assess the credibility of companies' transition efforts, inform investment decisions, and reorient capital in line with net zero.

Question 2: What are the specific use cases for a UK Taxonomy which would contribute to the stated goals?

The PRI has gathered insights from investors and regulators worldwide to develop global and regional positions to aid taxonomy development and implementation. Fundamental to this is an assessment of the use case of a taxonomy, per jurisdiction.

[5] CDP and Clarity AI, Exploring the EU Taxonomy as a tool for transition planning (2023)
[6] PRI and IIGCC joint briefing on key sustainable finance policy priorities for the UK (2024)

A UK Green Taxonomy is a valuable tool in enabling the UK to be a world leader in sustainable finance. Below, we provide analysis on the value of a taxonomy as a tool in itself, followed by further recommendations to accompany this analysis on how it can complement existing sustainable finance tools.

The value of a taxonomy

Sustainable finance taxonomies can enable well-functioning financial markets to contribute to climate and broader environmental goals. They help investors assess whether investments meet robust sustainability standards and align with policy commitments such as the Paris Agreement on Climate Change, the Sustainable Development Goals (SDGs) and national sustainability and climate change goals. They are also cornerstone instrument of sustainable finance policy frameworks through their ability to provide a science- and evidence-based foundation for disclosure, stewardship and duty-based policies.

Ensuring the credibility of sustainable investment products and strategies is critical to build trust. However, the multiple standards, guidelines and frameworks available has led to market fragmentation, inconsistencies, challenges in accessing information, higher research and transaction costs for market participants and companies, and an elevated risk of greenwashing. By providing consistent, widely recognised standards, taxonomies are a critical policy tool to ensure the credibility of sustainable investment products and strategies.

As highlighted in PRI's toolkit on taxonomies, a well-designed, effectively implemented sustainable finance taxonomy can:

- Provide clarity on what is a green and/or sustainable activity, and under which criteria. This clarity can also reduce the risk of greenwashing.
- Help measure the degree of sustainability of an investment and of companies' activities through, for example, identifying the proportion of revenues or expenditures which are green and which are not. This can also include identifying activities that will never meet the requirements of the taxonomy.
- Help inform the next investment decision. Carbon emissions data is backwards looking, so taxonomy data could complement this with information on how this data could change over time. Forward-looking data on green CapEx was highlighted as attractive to investors.
- Help investors and companies to plan and report on a transition towards sustainability by setting the objectives and the direction of travel for different economic activities. The developers of taxonomies should ensure that a distinction is maintained between those economic activities that are inherently sustainable and those economic activities that are needed to enable a transition towards achieving social or environmental objectives.
- Provide a shared reference point and encourage collaboration between policy makers, investors and companies.

Value in a UK context

The UK has been a pioneer in developing robust climate legislation with the 2008 Climate Change Act introducing legally binding emissions targets (carbon budgets) every five years and establishing the independent Committee on Climate Change (CCC). This offers a **strong framework for the development of UK specific technical screening criteria**, with the potential to link the evolution of the UK's technical screening criteria to the investment implications of decarbonisation scenarios from the CCC. Considering that the UK's new Nationally Determined Contribution (NDC) commitment takes on board CCC advice and sets a target to reduce GHG emissions by at least 81% on 1990 levels by 2035, **a UK Green Taxonomy could support measuring progress against these targets**.

Without a benchmark for sustainable activities, the lack of a UK Green Taxonomy leaves a gap in the UK's sustainable finance architecture and operates as a barrier to sustainable investment opportunities. A taxonomy can help by promoting transparency and equipping companies with the tools to substantiate green claims. This could impact the UK's global competitiveness and ability to attract investment, contrary to the government's Growth Mission. By reporting alignment of CapEx, OpEx, and revenues, companies can provide investors with decision-useful, consistent, and comparable information.[7] This helps investors to integrate sustainability considerations into their investment decisions.

Lastly, the GTAG's paper on [applying the UK Green Taxonomy to wider policies]() explores further use cases and options for important policy links.

Question 3: Is a UK Taxonomy a useful tool in supporting the allocation of transition finance alongside transition planning?

Yes. Taxonomies implemented across the globe have been successful tools in driving capital flows towards the transition when complementing real economy frameworks to mobilise private finance. As a tool, it is still relatively nascent with jurisdictions at different stages of the development and implementation process. The taxonomy will need uptake by market participants before statistics around capital allocation can fully materialise.

At this early stage, equity research by Goldman Sachs shows that alignment with the Taxonomy correlates with positive market performance, as companies disclosing high Taxonomy figures have outperformed the overall market in recent years. Companies with high revenues from activities aligned with the Taxonomy outperformed their competitors over the last five years.

The global perspective

As the PRI and World Bank's [Policy Toolkit on Taxonomies of Sustainable Economic Activities]() highlights, a well-designed, effectively implemented sustainable finance taxonomy can help investors plan and report on a transition towards sustainability by setting the objectives and direction of travel for different economic activities. Reporting by companies of capital expenditures towards sustainable economic activities is, for instance, an effective way to understand and assess their transition efforts.

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[7] Aldersgate Group, [Why businesses need a UK green taxonomy]() (2024)

Taxonomies may also go beyond sustainable economic activities and include, for instance, economic activities that are needed to enable a transition towards achieving social or environmental goals or economic activities that are inherently harmful: such 'extended' taxonomies should always make clear that they are not only identifying sustainable economic activities, and maintain a clear distinction between the different types of economic activities (i.e. sustainable, transition, harmful) so that investors can clearly distinguish the degree to which their investments are (not) contributing to the objectives defined by the taxonomy. The ASEAN Taxonomy for Sustainable Finance and the taxonomy by the Monetary Authority of Singapore (MAS) are examples of extended taxonomies, which can be used as a tool for high emission sectors to transition.[8]

In developing an approach to implement a UK Green Taxonomy, the UK government should consider whether an extended taxonomy as described above should be implemented, either immediately or in a second phase. It may be advised that the development of transition categories, at least in a first phase, focuses on hard-to-abate sectors (i.e. sectors that have a continued role or uses in a net zero post-2050 economy, but do not have low carbon emissions alternatives).

An extended taxonomy could further increase transparency over transitioning economic activities, allowing a more detailed breakdown of how companies are implementing their transition plans by allocating capital to transitioning their economic activities. By increasing transparency over what counts as a transition activity, an extended taxonomy could increase the robustness of transition finance products, addressing concerns that transition finance will simply enable business as usual investment.[9]

The UK perspective

The CCC has estimated that £50 billion of low carbon investment is required annually from 2030 to 2050 to meet the UK's climate commitments. A UK Green Taxonomy is a critical means to achieving this, through boosting investments in projects that accelerate the transition to a sustainable economy, creating green jobs, and supporting the UK's environmental goals.[10]

As highlighted in the UK's Transition Finance Market Review, the credibility and integrity of transition finance is crucial. An important pillar of securing this credibility and integrity is demonstrating the underlying real economy activity or activities that are in alignment with a pathway or benchmark compatible with the Paris Agreement. A UK Green Taxonomy would act as a credibility and integrity tool, setting out which economic activities are aligned with net zero using the best available science. As per GTAG's advice, current and planned taxonomy-alignment and eligibility should be a key component in the developing transition plans framework.[11]

An aligned approach

[8] PRI, How policy makers can implement reforms for a sustainable financial system: taxonomies (2022)
[9] GTAG, Developing a UK taxonomy adapted to the UK's needs in the short and medium term (2023)
[10] GTAG, Advice on the development of a UK Green Taxonomy (2023)
[11] GTAG, Applying the UK Green Taxonomy to wider policies: the value case and options (2023).

Whilst a taxonomy is a useful tool, a strong sustainable finance regulatory framework is limited without equally strong decarbonisation efforts within the real economy. Therefore, a taxonomy should be developed in parallel to other instruments (i.e. sectoral roadmaps and corporate transition plans) to ensure a coordinated and effective approach, as well as interact with other policy instruments such as stewardship and broader disclosure requirements.

To scale up transition finance, **clarity and harmonisation should be sought by implementing consistent frameworks** across the economy, building on the work of the TPT, the Green Technical Advisory Group's (GTAG) guidance on implementing a green taxonomy, and International Sustainability Standards Board (ISSB).

A lack of price signals from policymakers has been cited by investors as key barriers to catalysing transition finance flows.[12] Such policy signals can for instance be provided by requiring companies to report, as part of their transition plans, investments in taxonomy-aligned activities, the criteria for which are derived from sectoral and economy-wide milestones.

Question 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?

Formal and regular reviews should be built into the regulatory process. For taxonomies, the monitoring and review process can evaluate how the market is transitioning towards full alignment with the objectives of the taxonomy and can be used to identify any changes needed to ensure the economic activity classifications and performance criteria remain appropriate.

In cases where policy makers have decided to take a staged approach to implementation, monitoring and review can be used to evaluate progress and identify the point where additional requirements (e.g. technical screening criteria) might be introduced. Depending on the findings of the review process, policy makers should commit to refining and enhancing the existing regulation, ensuring the legislation remains effective and relevant.

Many countries will decide to start with a voluntary taxonomy to build capacity and familiarity with taxonomy-related reporting and use of this data in investment decision-making. The UK government has already indicated an intention for an initial two-year voluntary window for an incoming UK Green Taxonomy, before moving to mandatory. Clarity on the path ahead, i.e., an intention to move from voluntary to mandatory, and the timeframe for this move, is important to provide investors and companies with necessary time to prepare.

Question 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?

Lessons from the EU Taxonomy

[12] PRI, UKSIF, IIGCC, UK Sustainable Finance policy event summary (2023)

In 2020, the PRI published a Testing the Taxonomy report, featuring more than 35 case studies produced by members of the PRI Taxonomy Practitioners Group who implemented the EU Taxonomy on a voluntary basis. As taxonomies continue to be developed and implemented worldwide, the number of investors using taxonomies to measure outcomes is rising. More recently, the PRI published an update on this work, Implementing the EU Taxonomy, which provides insights into advanced taxonomy practice, supports collective problem solving, and encourages policy makers to provide additional guidance to financial market participants.

Taxonomies respond to three significant challenges faced by the investment industry – substantiating claims, engaging with investees, and reallocating capital. Respondents highlighted the need to adopt a long-term mindset with the taxonomy development process and recognise that initial challenges will be resolved over time. PRI signatories interviewed for these reports cited the following use cases for the EU taxonomy:

- a **disclosure tool** to report comprehensively and transparently on the sustainability performance of their portfolio holdings;
- to enhance **investment strategies** and meet sustainability goals;
- to assess **beneficiaries' sustainability preferences**;
- to identify **sustainable investment opportunities** and develop innovative products;
- to conduct **due diligence** on current and potential holdings; and
- to guide **stewardship** practices.

In practice, investors are using the EU Taxonomy to:

- set up **cross-functional working groups** within their organisations to oversee implementation;
- **conduct due diligence** on any third-party data assessments to obtain credible data and engaging with investee entities to fill any data gaps;
- **improve reporting** via substantiated figures in KPI calculations, using third-party validators to verify taxonomy alignment disclosures, and providing written explanations to contextualise alignment KPIs;
- **engage with policy makers and supervisors** on the scope and content of the regulation; and
- **educate end investors** to raise awareness and understanding.

The EU's Compendium of Market Practices also demonstrates that the EU Taxonomy is used to set transition strategies, structuring financial transactions, and reporting on sustainability efforts. It notes that as of December 2023, 1,747 companies have reported at least one Taxonomy metric, with 1,434 of these companies reporting Taxonomy alignment.[13] Bloomberg data shows that average revenue and CapEx alignment increased year-on-year in most sectors, suggesting an increase in the value of

[13] Platform on Sustainable Finance, Compendium of Market Practices (2024)

the EU Taxonomy in facilitating green investments. Bloomberg finds that, on average, around 20% of companies' capital investments are aligned with the Taxonomy. [14]

A global challenge, even with the EU Taxonomy, is that it will still take a while for investors to be able to utilise green CapEx revenues in index construction design, despite this being attractive for the design of larger investment products. Nonetheless, this role in financial planning or CapEx is also an emerging value case for a taxonomy in the UK's regulatory framework.

Question 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.

The PRI recommends that the UK government prioritise the integrity and efficacy of a UK Green Taxonomy by pursuing a robust, evidence-based, interoperable taxonomy. The PRI has sought feedback on four options:

- Option 1: A UK specific Taxonomy, based on the EU Taxonomy framework
- Option 2: Onshore the EU Taxonomy in its entirety
- Option 3: A UK specific Taxonomy, not based on the EU Taxonomy framework
- Option 4: No taxonomy

Option 1: A UK specific Taxonomy, based on the EU Taxonomy framework

This option would involve a UK specific Taxonomy being adopted, as a policy instrument in its own right, as aligned as possible to the EU Taxonomy.

The EU Taxonomy offers a blueprint for this approach to taxonomy design, and its criteria are the results of a consensus amongst relevant experts following an extensive co-development process (through a Technical Expert Group and Platform on Sustainable Finance). Countries have therefore consistently adopted taxonomies that are aligned to the EU Taxonomy framework, as the best way to ensure their robustness and integrity, while adapting it as relevant to national circumstances and considerations.

A robust, sustainable finance taxonomy should consist of the following elements: criteria for significant contribution to one objective; Do No Significant Harm (DNSH) requirements on any of the other objectives; and minimum social safeguards. These are also highlighted in the G20 SFWG Principles as central to supporting greater comparability, interoperability, and as appropriate the consistency, of alignment approaches and further development of sustainable financial markets.[15]

The majority of UK investors that the PRI consulted shared a broad consensus that this option was the most sensible approach, while noting the usability challenges that the EU Taxonomy faced needed to be overcome. Policy makers should take a pragmatic approach to consider opportunities to

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[14] Bloomberg, [Zooming in on the EU Taxonomy's value](#) (2025)
[15] G20 Sustainable Finance Working Group, [G20 Sustainable Finance Roadmap](#) (2024)

improve the EU framework in a UK context, and we would caution divergence in the absence of an improved approach. Many investors highlighted that support for this option was contingent on the UK's specific Taxonomy being interoperable with the EU's.

Consistent with PRI's findings, the Department for Business and Trade's (DBT) research on the EU Taxonomy's Framework and its impact on companies highlights that consistent and technical standards can help to guide best practices and allow for more meaningful comparisons over time. Whilst usability challenges need to be overcome, most respondents hoped that UK would adopt the same standard as the EU or a system of interoperability and mutual recognition between the two taxonomies to limit or prevent duplicating disclosure reporting processes, which would increase costs to businesses.[16]

Option 2: Onshore the EU taxonomy in its entirety

This option involves the UK not adopting its own taxonomy but onboarding the EU's Taxonomy.

With this option, the UK would not be able to input into the EU Delegated Acts, which add amendments to the EU Taxonomy, leaving future development out of the control of the UK government.

The UK's regulatory framework has advanced thus far without a UK specific Taxonomy. The FCA's SDR regime recognises that the EU Taxonomy could be used as a credible standard of sustainability, while the UK settles on its approach to a taxonomy. Some investors have highlighted the risk of high reporting burden and fears of the lack interoperability as an argument to onshore the EU taxonomy in its entirety.

Whilst interoperability would be easier to achieve with option 2, there are political barriers that could prevent the UK integrating the EU Taxonomy into the UK sustainable finance framework. Onshoring the EU Taxonomy in its entirety risks that the taxonomy is not fully tailored to the UK market. Whilst the PRI would not recommend this option, we strongly encourage global alignment of taxonomies through interoperability with the EU Taxonomy.

Option 3: A UK specific Taxonomy, not based on the EU Taxonomy framework

Another option would be for a UK specific Taxonomy, not based on the EU Taxonomy framework.

Interoperability is core criteria for an effective and usable taxonomy. Considering most jurisdictions have developed a robust, credible taxonomy by using the EU's taxonomy framework, we would caution against this approach to maintain the integrity of a potential UK Green Taxonomy. UK sectoral emissions are similar to the EU, so there is limited benefit for major divergence on the basis of emissions.

Option 4: No taxonomy

[16] Department for Business and Trade (DBT), The EU Taxonomy Framework: Research on the Impact on Companies (2024)

The UK may also decide not to pursue a taxonomy.

In Japan, while a taxonomy was considered and a PRI survey found that 60% of Japanese investors supported a sustainable finance taxonomy, it was not deemed compatible with the country's economic and decarbonisation needs.

The Japanese government identified the decarbonisation of its highest emitting industries, which are also key economic value generators, to be a higher priority than growing financial flows to green activities. A key consideration was also ensuring that capital flow did not move away from heavy emitting industries, which require more immediate investments to support the development of transition technologies. In place of a taxonomy, under the leadership of the Ministry of Economy, Trade and Industry (METI) has also developed a range of policies and initiatives to scale transition investments, such as issuing the Basic Guidelines on Climate Transition Finance, sector roadmaps to inform transition finance projects, and the issuance of sovereign transition bonds, of which the use of proceeds will support the scaling of private transition financing.

Japan's approach indicates that countries can take different approaches to address unique economic and decarbonisation needs. Importantly, Japanese policymakers have recognised that interoperability is a challenge as it pursues this unique, Japan-specific approach. The UK's economy is not as manufacturing and heavy industry dominated as Japan, and currently does not have the tools in place for a quasi-taxonomy. The lack of interoperability combined with the different economic profile of the UK makes a strong case for why this option is not viable.

Considering the similarities between the EU and UK emissions profiles, the suite of GTAG's advice on the development and implementation of a UK Green Taxonomy, as well as investor appetite for a UK Green Taxonomy, we recommend that the UK still pursues a taxonomy.

PRI recommendation

The PRI has engaged with investors on these four options and has found broad support for **option 1 - a UK specific Taxonomy, based on the EU Taxonomy framework.** Global alignment is an operational imperative for investors, so a UK specific Taxonomy would need to be interoperable with the EU Taxonomy. We also recommend drawing on existing and emerging initiatives to maximise interoperability between a UK specific Taxonomy and other taxonomies across the globe. We provide further analysis on this below, and recommendations on the criteria for a potential UK Green Taxonomy in our response to question 11.

A caveat for PRI's support for option 1 is that a potential UK specific taxonomy must be interoperable as far as possible with the EU taxonomy. The UK should start with a similar framework to the EU's - criteria for significant contribution to one objective; Do No Significant Harm (DNSH) requirements on any of the other objectives; and minimum social safeguards

Investors leant support to this option for a range of reasons. Being able to define what a UK specific Taxonomy looks like is important for the UK's ambition on net zero, biodiversity, and other climate objectives. The UK has its own route to net zero and different sectors to prioritise, so onboarding the EU Taxonomy entirely would not capture these nuances. Some investors also highlighted that the UK should take ownership of its own taxonomy and calling it a UK Taxonomy will be key when referencing it in wider sustainable finance instruments.

Some investors highlighted **usability issues that needed to be overcome** for a UK specific Taxonomy to be based on the EU Taxonomy and still be an effective, usable tool. Feedback from the first years of implementation of the EU Taxonomy suggest that the market has faced challenges including: consistency issues (e.g. with SFDR); difficulties in interpreting certain DNSH criteria; lack of coverage of eligible activities for the financial sector KPIs (GAR); and use of estimates where taxonomy data is not public.[17] The EU PSF is currently developing targeted recommendations to address usability issues in the EU Taxonomy which would allow for simplifying it.

Investors also noted that certain activities would struggle to be fully aligned with technical screening criteria and DNSH requirements. Leaving room for activities critical to the UK's transition to report on future alignment with DNSH could be an avenue for the UK government to consider. Any measures taken to improve the usability of taxonomies should not compromise the environmental integrity of the tool. The principle of DNSH is fundamental to the taxonomy design process and should be part of a potential UK Green Taxonomy development process. Further analysis on streamlining DNSH is provided in our response to question 12.

Interoperability initiatives

The risk of divergence between taxonomies developed across various markets is a major concern for global investors. Work on achieving interoperability will continue to grow on the international stage, prioritised at the COP29 presidency of the UNFCCC and in the future COP30.

To maximise the potential for interoperability, the UK should draw from the **Common Ground Taxonomy**, **the G20 Sustainable Finance Working Group (SFWG) principles,** the **COP29 Roadmap**, and the UNEP-FI, Climate Bonds Initiative, and PRI's **collaboration** to support taxonomy efforts around the world, if it decides to pursue a UK specific Taxonomy.

The Common Ground Taxonomy is a comparability tool between the EU Taxonomy and China's Green Bond Framework (commonly used as a taxonomy). It analyses 80 economic activities across 6 sectors and aims for foster interoperability between the two markets. This provides investors with a clear understanding of which activities can be considered sustainable under the two frameworks. The Common Ground Taxonomy follows four principles in activities selection and technical screening criteria: science-based; key industries' priority identification to address climate change mitigation activities; stringent technical screening criteria in scenario analysis; activities that contribute to climate mitigation.[18] It is still an evolving tool, currently covering only significant contributions for climate mitigation, and predominantly used as a mechanism for end users to compare taxonomies. The principles it is based on could be a useful starting point for jurisdictions developing their own

[17] Platform on Sustainable Finance, Compendium of Market Practices (2024)
[18] Natixis Corporate and Investment Banking, Updated Common Ground Taxonomy, the crowbar of international green capital flows? (2022)

taxonomies, as a comprehensive framework and a basis for global alignment. For example, Hong Kong and Singapore have drawn on this framework.[19]

As noted in PRI's Common Ground Taxonomy position, the International Platform for Sustainable Finance (IPSF) could clarify the role of the Common Ground Taxonomy as a benchmark for future taxonomy development.[20] The IPSF could provide further guidance on how the Common Ground Taxonomy could be used to achieve interoperability and strengthen the science-based criteria within the tool. This would help jurisdictions developing taxonomies, like the UK, draw on the Common Ground Taxonomy as a basis for ensuring jurisdictional-specific taxonomies are interoperable.

Other initiatives highlight a **strong and increasing focus on interoperability**. The G20 SFWG principles encourage jurisdictions to consider developing sustainable finance taxonomies using the same language, such as international standard industry classification and other internationally recognised classification systems.[21] The principles also emphasize that significant contribution, DNSH, and a science-based approach are crucial to taxonomy development.

The COP29 Roadmap for advancing interoperability and comparability of sustainable finance taxonomies will focus on identifying a common core set of taxonomy economic activities, develop common technical approaches for alignment with taxonomy principles and essential criteria, and formulate common approaches to finance the transition to taxonomies.[22] Lastly, the PRI announced a collaboration with UNEP-FI and Climate Bonds Initiative intended to build consensus on taxonomy definitions and concepts among standard setters, policymakers, and taxonomy users, support the development of taxonomies and provide tools for implementation.[23]

These existing and emerging interoperability initiatives underscore that interoperability cannot be a secondary matter or an afterthought. It must be embedded within each jurisdiction's taxonomy design and implementation. The initiatives mentioned above should guide the UK government's approach to ensuring interoperability is at the core of a UK specific Green Taxonomy.

Analysis on interoperability

Differences between taxonomies can lead to activities being classed as green in one jurisdiction, and not in another. This can make it difficult for global companies and investors to align their activities with clearly defined social and environmental goals, as well as increasing compliance costs and concerns over regulatory burdens.[24]

As noted, a robust, sustainable finance taxonomy should by design consist of the following elements: criteria for significant contribution to one objective; DNSH to any of the other objectives; and minimum

[19] Hong Kong Green Finance Association (HKGFA), Understanding Use Cases of the Common Ground Taxonomy (2022). IPSF presents the Multi-Jurisdiction Common Ground Taxonomy to enhance interoperability of taxonomies across EU, China and Singapore (2024)
[20] PRI consultation response to the Common Ground Taxonomy (2022)
[21] G20 Sustainable Finance Working Group, G20 Sustainable Finance Roadmap (2024)
[22] International Finance Corporation (IFC), Roadmap for Advancing Interoperability and Comparability of Sustainable Finance Taxonomies (2024)
[23] UNEP FI Press Release: UNEP FI, PRI and Climate Bonds Initiative join forces to support taxonomy efforts around the world (2024).
[24] Centre for Climate Engagement, Green Taxonomies – Global guidelines for the green transition? (2024)

social safeguards. Incorporating these elements into a UK Green Taxonomy design would also maximise the potential for interoperability, given that the EU Taxonomy has served as a blueprint for other jurisdictions to model approaches from this design.

The Taskforce on Net Zero Policy, a technical expert group launched at COP28, note that the variety of approaches in taxonomy design and application have led to calls for increased compatibility between frameworks.[25] While taxonomies ought to reflect countries' economic and environmental realities, compatibility is highly desired. This can be achieved through sharing a set of principles, a structure and a baseline.

In the developing the PRI's [implementation guide on taxonomies of sustainable economic activities](), interoperability of taxonomies was a key issue for investors. From a design perspective, interoperability requires taxonomies to:

- Have similar objectives as other taxonomies, although there can be some adaptation to national contexts;
- Use the same or easily comparable industry classification systems to define economic activities;
- Have a similar approach regarding the design of technical screening criteria (i.e. including both significant contribution and do no significant harm criteria), and use technical screening criteria that are transparent and broadly similar; and
- Use consistent metrics and calculation methodologies.

With 50 taxonomies implemented or in development worldwide, the UK benefits from not being the first mover. To best ensure interoperability, and consistent with other jurisdiction's approaches, the EU Taxonomy offers a strong architecture for the UK to base its Taxonomy on. The UK should adapt the EU Taxonomy to define economic activities which support the UK's net zero target and provide investors with the certainty needed to assess the sustainability of their portfolios.

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

As mentioned in our response to question 5, the PRI has undertaken considerable work with taxonomy practitioners and policy makers on developing and implementing taxonomies. Our main objectives are to highlight examples of best practice, support collective problem solving by outlining common challenges and possible solutions, and encourage policymakers and supervisors to provide additional guidance to financial market participants.

The EU Taxonomy provides the most comprehensive framework developed to date to identify economic activities, sectors, and companies that are contributing to meeting the Paris Agreement's goals and advancing environmental sustainability more generally.[26] Other jurisdictions developing taxonomies have largely adopted the same structure as the EU and adapted to national contexts or

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[25] Taskforce on Net Zero Policy, Net Zero Policy Matters (2024)
[26] International Regulatory Strategy Group (IRSG) Recommendations for reviewing the EU Taxonomy for UK application (2021)

made improvements. Importantly, maintaining the environmental integrity and science-based targets ensures jurisdictional taxonomies are aligned with international best practice.

Considering approximately 80% of UK holdings are overseas, and the largest proportion of the UK's foreign investment is the EU (at 73%), a UK Green Taxonomy that is interoperable with the EU's Taxonomy is vital.[27] The GTAG paper, Advice on the development of a UK Green Taxonomy, offers recommendations on making the EU Taxonomy fit for purpose in the UK. It suggests taking the scientific metrics in the EU Taxonomy as a basis, then adapting to the UK's specific net zero pathway.

General approach

Considering the UK government seek feedback on the value and use cases of a taxonomy, rather than detailed criteria, the PRI will provide analysis on high-level approaches that other jurisdictions have taken on taxonomy development.

The Australian Sustainable Finance Institute's (ASFI) proposed approach references that the **taxonomy's headline ambitions** should:

> *'be based on international environmental and climate agreements that Australia supports; be underpinned by science-based information, including alignment to a 1.5C trajectory; be informed by local commitments and strategies on environmental objectives, including Australia's response to international agreements or Australia's leadership on an objective; define or facilitate clear goals and targets, both short and long term where applicable; determine timelines to achieve the defined targets; and assess whether the targets are achievable at the defined levels and timescales.'*[28]

Public policy should be guided by scientific consensus and international norms, but also needs to be tailored to specific national circumstances. To this end, the PRI supports references to relevant scientific consensus and international norms where relevant.

Considering that the UK has committed to several national and international climate commitments, ASFI's proposed headline approach could be adopted to inform the UK's approach. We recommend specific reference to the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework, both of which the UK are parties to. As key multilateral agreements, investors look to these frameworks to ensure consistency across jurisdictions and certainty in the direction of travel for policy developments.

Another interesting approach taken is the ASEAN Taxonomy. The taxonomy design sets a baseline, which is intended to make it easier for national taxonomies to find compatibility with the ASEAN's. ASEAN member states have their own set of systems and policies on sustainable finance, and the ASEAN taxonomy provides a common language to enable effective cross-border communication and coordination for labelling economic activities.

[27] Green Alliance, Ending greenwashing with a science-based taxonomy (2023)
[28] Australian Sustainable Finance Institute (ASFI) Australian Taxonomy Second Consultation Paper (2024)

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

To determine the scope of a UK Taxonomy, it is first necessary to decide upon the potential UK Taxonomy's objectives and have a clear understanding of how a UK Taxonomy could be used. The EU has taken a sensible approach to taxonomy design, which the should UK follow. An incoming UK Green Taxonomy should have criteria for certain sectors in alignment with national environmental standards while maintaining harmonisation with international best practice.[29]

Scope of the EU Taxonomy

The EU Taxonomy recognises green activities that make a substantial contribution to EU environmental objectives, aiming for alignment of Taxonomy criteria with the ambition of the European Green Deal objectives.[30] The first Delegated Act focuses on the climate objectives (climate change mitigation and climate change adaptation) and therefore includes activities that are most relevant for reductions in greenhouse gas emissions and for improving climate resilience.[31] This includes sectors with the highest contribution to CO_2 emissions, as well as activities enabling their transformation. Through this coverage, the EU Taxonomy can significantly increase the potential that green financing offers to support the transition.

The EU Taxonomy will be developed gradually over time, and further delegated acts will likely include other economic activities from different sectors and sub-sectors of the economy. This adaptation to change is important – there is much that we do not know about the economic transition. With the advancement of technologies, policy interventions must develop. Equally, taxonomy development must continue to be based on scientific evidence, with sectors that can feasibly be integrated into the taxonomy.

Taxonomies could start by focusing on larger companies where reporting may be more advanced or with key industry sectors, and then extending to smaller companies or other industry sectors. Each sector and type of activity considered under a UK Taxonomy should have specific technical screening criteria to determine whether it is taxonomy-aligned or not. Criteria should be defined for how economic activities can significantly contribute to the objectives of the sustainable finance taxonomy, as well as for ensuring that economic activities do no significant harm to any of the objectives.[32]

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

To maintain interoperability and align with current international best practice, the UK's approach to determining environmental objectives should follow the EU's approach. The six environment objectives identified in EU Taxonomy Regulation are: climate change mitigation; climate change

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[29] PRI, How policy makers can implement reforms for a sustainable financial system: taxonomies (2022)
[30] European Commission, FAQ: What is the EU Taxonomy and how will it work in practice? (2021)
[31] European Commission, FAQ: What is the EU Taxonomy and how will it work in practice? (2021)
[32] PRI, How policy makers can implement reforms for a sustainable financial system: taxonomies (2022)

adaptation; sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems.

There should be no priority given to any one of these environmental objectives. To ensure that an economic activity making a substantial contribution to one of these environmental objectives does not cause damage to the other environmental objectives, a DNSH and minimum social safeguards criteria must also be met. The minimum social safeguards must be consistent with the Guidelines for Multinational Enterprises from the Organisation for Economic Co-operation and Development and UN Guiding Principles on Business and Human Rights, including core International Labour Organization conventions. As with the EU taxonomy, to be recognised as 'taxonomy-aligned' an economic activity must meet these three conditions.

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

From an investor perspective, comparability is key, yet specific metrics may be calibrated differently to reflect specific national circumstances. Following GTAG's advice, the UK should take the scientific metrics in the EU Green Taxonomy as its basis and adapt the focus to the UK's specific net zero pathways.

The UK government should also consider the metrics in which alignment is expressed. As an example, the EU Taxonomy alignment metrics include the percentages of a company's revenue, OpEx, and CapEx that are aligned with the EU Taxonomy.

Question 11: What are the key design features and characteristics which would maximise the potential of a UK Taxonomy to contribute to the stated goals?

The taxonomy design phase is an iterative process. It requires policymakers to define the objectives of the taxonomy, to consider implementation options, and to build support for the taxonomy through engagement.

Taxonomy objectives can vary by jurisdiction – they are shaped by the needs and interests of target stakeholders and the wider social and environmental policy goals of each jurisdiction. For example, the objective of China's Green Bond Endorsed Catalogue (widely described and used as a taxonomy) is to help policymakers identify which activities are eligible for green bond designation. On the other hand, the EU taxonomy has the explicit objective of driving private and public capital flows towards projects that meet the goals of the Paris Agreement.

In the PRI's Policy Toolkit on Taxonomies of Sustainable Economic Activities, which offers guidance on taxonomy design, we note that potential objectives for a taxonomy could be:

- to provide decision-useful information to guide the transition towards national and international sustainability goals and standards, respecting environmental boundaries and societal needs;
- to connect national sustainability goals to corporate disclosures; and

- to increase investment in green and sustainable assets.

For the UK, the following principles should be taken into account to inform the UK's approach to a potential UK Green Taxonomy.

- **Clarity**. The government should provide investors with clarity on near-term policy actions and milestones that will create the right enabling environment to support the transition. The scope of green activities should be clearly defined to avoid confusion or inconsistency.
- **Robust and science-based.** A potential UK Green Taxonomy should be based on science and aligned with a net-zero future. Criteria should also be consistently applied.
- **Interoperability.** Without common principles and metrics, market fragmentation will continue to restrict the flow of capital into green and sustainable projects and activities.

In the table below, we set out specific design features of taxonomies that could help guide future UK Taxonomy development.

Features	Commentary
Taxonomy objectives	Objectives should be science-based, in line with environmental boundaries and societal needs, and linked to national and international policy goals and standards. Objectives are helpful when evaluating progress and can provide a framework for the future development of the taxonomy.
Eligibility of economic activities	Taxonomies have tended to use existing international industry classification systems to determine eligible economic activities. Examples of these classification systems include the Global Industrial Classification System (GICS) and the International Standard Industrial Classification System (ISIC). A benefit of using a widely used classification system is that it supports the interoperability of different taxonomies.
Alignment of economic activities	Within the eligible sectors detailed by the taxonomy, the extent to which specific activities align with the objectives of the taxonomy needs to be determined. This can be done by specifying technical screening criteria, which are specific performance-based criteria to determine if an activity is aligned with the taxonomy (e.g. only energy produced below a certain carbon intensity level would be eligible). In order to be aligned with a sustainable finance taxonomy, an economic activity must significantly contribute to one its objectives, while doing no significant harm to any of the other objectives.

Reporting universe	The effectiveness and influence of a taxonomy increases as it covers more of the economy. Taxonomies could start by focusing on larger companies where reporting may be more advanced or with key industry sectors, and then extending to smaller companies or other industry sectors.
Reporting period	Taxonomies should encourage companies to report in line with their financial reporting, i.e. taxonomy-related data should be provided for the same time periods as financial data and should apply to the same scope of company activities.
Data assurance	Independent assurance is generally recognised as a way of producing higher quality data and of reassuring stakeholders about the quality of that data. However, assurance also involves costs for companies and may delay reporting.
Costs of reporting	A more complex taxonomy increases costs of reporting, as do implementation processes such as verification.
Mandatory or voluntary disclosure requirements	The usefulness of a taxonomy is improved as more companies report against the taxonomy and as investors integrate these disclosures into their investment research and decision-making. Ultimately, mandatory reporting is likely to be needed to ensure high levels of reporting by companies and use by investors, although voluntary measures can make an important contribution in terms of awareness-raising, capacity-building and catalysing initial capital flows. In practice, in many cases taxonomy-related reporting requirements will be implemented as part of corporate ESG reporting requirements (i.e. the taxonomy would provide a framework for the information to be reported under other regulations).
Investor reporting on taxonomy use	Investors and other financial institutions could be encouraged or required to use the taxonomy as part of their reporting to beneficiaries, clients and other stakeholders. Investors using the taxonomy to market or promote financial products as aligned with the taxonomy would be expected to report on a continuous basis as underlying holdings change or as information about these holdings is updated.
Regulatory impact analysis	A regulatory impact analysis is an approach to assessing the effects of proposed and existing regulations and non-regulatory alternatives.

	It can support evidence-based decision making on adoption and implementation of policy. Regulatory impact analysis methodologies vary between countries. The OECD '[Best practice principles for regulatory impact analysis]' chapter in its Regulatory Impact Assessment report gives detailed guidance on regulatory impact assessment options. The OECD also publishes details of the methods used in various countries.

Stakeholder consultation

Engagement is an essential part of the policy-making process; it can shape the design and implementation of the policy instrument, build capacity and expertise, and build support for the instrument.

Policy makers should engage stakeholders when defining the overall objectives for the taxonomy, when defining its scope and when developing technical screening criteria. Different stakeholders will, inevitably, make different contributions and have different levels of technical expertise. It is, however, important that a diverse range of inputs are sought to ensure that the taxonomy is technically credible and seen as credible by key stakeholder groups.

The GTAG has proven to be a strong vehicle for stakeholder consultation, offering expert advice on market, regulatory and scientific considerations to aid the UK government's taxonomy development process. Should the UK government decide to move forward with a UK Green Taxonomy, it should consider reinstating the GTAG. The GTAG could support the design, implementation, and monitoring of a UK Green Taxonomy.

To support the more technical elements of a UK Green Taxonomy, the UK government could consider forming a Technical Expert Group (TEG), similar to the European Commission's approach. A TEG was established in the EU to develop recommendations for technical screening criteria, culminating in a final report. Beyond the EU, it has broadly been accepted that an arm's length body and governance structure for taxonomy development is needed, such Canada's Sustainable Finance Action Council (SFAC), Australia's Australian Sustainable Finance Institute (ASFI), the ASEAN Taxonomy Board, amongst others.

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

A Do No Significant Harm (DNSH) mechanism helps to ensure that companies doing well on one environment aspect also meet a minimum baseline standard across others. It enables investors to understand the risk and return of an investment, avoid reputational risk, have greater consistency with environmental and social objectives, and companies will be rewarded financially by investors looking for sustainable investment opportunities. The principle of DNSH is fundamental to the taxonomy design process, but it does have the potential to be streamlined.

Under EU Taxonomy regulation, compliance with DNSH, technical screening criteria, minimum social and governance safeguards is required. The EU Taxonomy sets out scientific and target-based DNSH criteria for each activity. The EU's DNSH requirement has faced a number of usability issues such as the level at which DNSH requirements are applied – the EU taxonomy at activity-level, SFDR at the portfolio company-level. Furthermore, the EU Taxonomy's DNSH sets scientific targets for six environmental objectives, while SFDR adopts a broader approach and applies DNSH criteria for environmental and social objectives. DNSH requirements in the UK Green Taxonomy and SDR should be aligned and consistently applied to overcome the EU's navigation complexity of general and explicit technical performance specifications.

Streamlining DNSH

In the absence of a more effective tool to exist, there is scope to streamline DNSH in a future UK Taxonomy rather than replace the mechanism entirely. The GTAG has published a report on streamlining and increasing the usability of DNSH criteria within a UK Green Taxonomy, which offers a comprehensive analysis on steps to streamline DNSH and key operating model considerations. The PRI supports additional disclosures as to why an activity does not pass DNSH criteria, and actions planned to remedy this. This can provide a clearer picture to investors and create incentives to improve performance, but actual taxonomy alignment must remain conditional on respecting DNSH thresholds.

Further to this, DNSH references to domestic legislation would make interoperability far more difficult. To alleviate this challenge, details of DNSH criteria should be included directly, not via reference to other legislation.

Importantly, streamlining DNSH should not compromise the environmental integrity of the tool – to ensure that an activity doing well on one environmental objective does not cause harm to other environmental objectives. Streamlining DNSH should focus on simplifying language, reducing duplication, making the criteria easier to assess/quantity, and less open to interpretation.

DNSH criteria should be developed in coherence with a UK Green Taxonomy and incorporated into the FCA's SDR regime. With the FCA's fund label criteria requiring 70% of holdings to meet the fund's criteria, a DNSH criteria based on a sustainable finance taxonomy is well placed to ensure that the remaining minority or '30%' of holding within this label do not cause harm to the product's sustainability objectives.

Question 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 should be a dynamic tool, with regular updates consistent with technological and scientific advances. As the Transition Finance Market Review notes, a static taxonomy cannot keep up with developments in emerging technologies and the dynamic nature of transition activities. CBI also highlight that taxonomies should evolve with scientific advancement, regulation updates, technology development, and market needs.[33] To this end, a three-year update is sensible, yet careful consideration of sequencing between investor and corporate reporting requirements is needed.

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

The PRI would like to highlight GTAG's paper, Creating an institutional home for the UK Green Taxonomy, for recommendations on governance and oversight arrangements. Whilst GTAG outline credible options to support ongoing maintenance and updates to accompany a UK Taxonomy, it lands on recommending an Advisory Body. As noted, this Advisory Body should be: independent and at arm's length from government to ensure rigorous focus on science; access scientific and financial expertise; nimble to facilitate responsive and dynamic decision-making; credible to ensure the taxonomy is authoritative, transparent and accountable; and have a long-term source of funding.[34]

The EU Taxonomy Navigator offers tools to help users better understand the EU Taxonomy, offering guidance on the sectors, activities and criteria in the EU Taxonomy, disclosure obligations, and NACE classification mapping. This also provides updated on the Taxonomy Delegated Acts. Should the UK develop a UK specific Green Taxonomy, the UK government could set up a similar navigator-style webpage with guidance on the sectors, activities and criteria of the UK Green Taxonomy, disclosure obligations, and a classification mapping similar to the EU's. Regularly updating this page as a UK Green Taxonomy develops will be crucial to building market participants' understanding through greater transparency, as well as capacity building within corporates and investment firms.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of HM Treasury further its approach to a UK specific Green Taxonomy.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org

[33] Climate Bonds Initiative (CBI), Global green taxonomy development, alignment, and implementation (2022)
[34] GTAG, Creating an institutional home for the UK Green Taxonomy: exploring options (2023)