



UK GREEN TAXONOMY

Issued 6 February 2025

ICAEW welcomes the opportunity to comment on the UK Green Taxonomy consultation published by HMT on 14 November 2024, a copy of which is available from this [link](#).

ICAEW urges the Government to be clear on the primary use case and objectives of implementing a Taxonomy, to avoid unnecessary burden to businesses that must comply with existing sustainability disclosure requirements and those due to come into force in the near term.

ICAEW is supportive of the creation of a UK Green Taxonomy as a simple classification system that identifies sustainable economic activities as part of the broader corporate sustainability framework landscape.

We strongly recommend the UK Government takes learnings from the implementation of the EU Taxonomy to develop a UK Taxonomy that is simple, user-friendly and is supported by sufficient guidance to enable companies to show alignment with the Taxonomy.

This ICAEW response of 6 February 2025 reflects consultation with the Sustainability Committee, Corporate Reporting Faculty, and the Financial Services Faculty. Sustainability describes a world of thriving economies and just societies based on what nature can afford. Members in practice, in business and private individuals all have a role to play if sustainability goals are to be met. The work being undertaken by ICAEW in this area is to change behaviour to drive sustainable outcomes.

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KEY POINTS

Purpose

1. We encourage the UK Government to be clear on the purpose of the Taxonomy as a comprehensive classification system setting out definitions and criteria of what is green. It is designed to facilitate “better disclosure and market activity” to drive capital to invest in the rapid decarbonisation of the economy. This will avoid, for example, scope creep whereby the Taxonomy becomes a de facto reporting framework. This would create overlap and conflict with existing frameworks, create confusion and additional burdens on business.

Learning from other jurisdictions

2. We strongly recommend the UK Government takes learnings from the implementation of other taxonomies, especially the EU Taxonomy, which has become so unwieldy that it inhibits the very thing it seeks to facilitate. The UK Taxonomy must be simple, user-friendly and supported by sufficient guidance to enable companies to show alignment with it.

Interoperability

3. As a matter of principle and where practicable from the development of this taxonomy, the Taxonomy should align with other environmental objectives used by other jurisdictional taxonomies to support interoperability. That having been said, the metrics and criteria that sit underneath these should be streamlined and simplified to be useful for reporting entities, investors and other users.

Relevant

4. The Taxonomy should be updated regularly, aligned with the transition planning review cycle of every three years to incorporate new scientific findings and technological advancements. There should be adequate communication with companies if any significant updates are to be made so that they have time to adapt.

ANSWERS TO SPECIFIC QUESTIONS

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?

5. The UK Taxonomy will offer value in this context by providing clear criteria for identifying green economic activities. It must also complement the existing sustainability policies and frameworks rather than overlap or conflict with them. This will enable investors to make better informed decisions and facilitate the flow of capital towards genuinely sustainable projects. Without a Taxonomy, each financial institution or project owner is able to self-assess how green and sustainable a product or portfolio is, which leads to inconsistency and a lack of transparency in the market. This will make it difficult for investors to determine where to invest in projects and funds that most align with their goals. Transition finance adds complexity to this challenge. Transitioning will inevitably include assets that are “shades of green” that enable the transition to a net zero future, rather than being the destination. Such nuance will create a greater risk of greenwashing and investor confusion. This makes a well-designed taxonomy all the more important.
6. The Government needs to be clear that the purpose of the Taxonomy is to facilitate transparency in market activity. It is a classification system and as such should complement and support existing frameworks and standards, driving consistency around what constitutes green activity and investment. It must not add to the reporting and disclosure burden that already exists or is likely to increase with the implementation of IFRS Sustainability Disclosure Standards and CSRD (for firms with an EU footprint). Aspects of a poorly implemented Taxonomy include, significant complexity, overlapping reporting and disclosure

requirements, and an incomplete Taxonomy that leaves certain areas of ESG without common agreement and conflicting scopes.

Question 1a: Are there other existing or alternative government policies which would better meet these objectives or the needs of stakeholders?

7. The Government must be clear on the need they are seeking to satisfy. There is a wealth of soft and hard market levers that can be deployed to drive behaviour. These might include taxation, carbon pricing mechanisms and disclosure. Taxonomies have their place. However, there is the danger of creating a Taxonomy so unwieldy that it becomes self-defeating. We have seen this with the EU Taxonomy, where companies are simply not applying it or recording all their activities as not aligned because the process to assess economic activities is far too complex and unclear.
8. Existing and forthcoming government policies which support the stated objectives are namely ISSB (S1 and S2), the wider non-financial reporting framework which is specifically designed to provide information that is material to investors in a proportionate way, and the prudential regulation policies around product labelling etc. plus forthcoming consultation on mandatory transition plans. Therefore, the use case for the Taxonomy needs to be distinct from those policies and not duplicative. It's likely that the Taxonomy will have limited impact if it isn't aligned with other pieces of sustainability regulation, but there must be consistency between the regulations and the Taxonomy.
9. Others (Mark Campanale) have pointed out these taxonomies are only relevant to those who make green claims and to support stakeholders seeking to understand them. They do not stop companies emitting greenhouse gases.¹ Campanale has argued that we need to think about climate change from the market supply side and instead of trying to improve what we have in financial markets, change the market foundations. He highlights as an example changing the admission process forcing applicants to give much more detail of the risks of the business before financing is raised. Such detailed information about risks would obviate the need for a green taxonomy.²

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

10. There are several proposed use cases in paragraph 2.2 of the consultation document. We recommend that these be narrowed down to focus on the primary objective and audience for the Taxonomy. If the primary use case is to achieve a government policy objective of unlocking finance towards green activities, there are arguably other policy measures that could be more effective than introducing a green taxonomy. As noted in this [letter](#) to the European Commission, it is important to be clear from the outset on the added value of the UK Green Taxonomy. Equally, it will be important to demonstrate its connectivity with other policies and frameworks.
11. On its own, a green taxonomy will not deliver the intended objective of reducing greenwashing and driving capital towards sustainable economic activities. It does, however, serve as a tool in a broader suite of sustainable finance policies. It could be used to support other policies such as the National Wealth Fund or through green trade deals such as greening export guarantees to provide preferential terms for taxonomy-aligned projects, as noted by the [Climate Bonds Initiative](#).

Question 2a: What are respondents' views on the benefits of the proposed use case?

12. By having a clear and consistent classification system, investors can more easily identify sustainable investments and has the potential to increase the flow of capital to genuinely sustainable projects. Clarity on what is and crucially what isn't sustainable can reduce the

¹ Jo Paisley, Risk Management and the rise of the Green Taxonomy, GARP, 8 September 2022

² Jo Paisley, Risk Management and the rise of the Green Taxonomy, GARP, 8 September 2022; See also GARP Podcast: Achieving Net-Zero: Reframing Climate Change as a Supply Side Issue; and Carbon Tracker's Flying Blind reports

risk of greenwashing and unlock capital, as this **2023 poll** found that fears of greenwashing was the number one barrier preventing investment firms from integrating sustainability into their investing strategies.

13. The Taxonomy should be a useful tool in IFRS S1/S2 disclosures. The relevance of a Taxonomy appears primarily to relate to assessing climate related opportunities. Where those opportunities include capital investment into green initiatives, firms will be able to indicate where relevant, investment decisions are Green Taxonomy aligned.
14. The UK Green Taxonomy would also support the SDR and labelling regime by providing specificity on the economic activities deemed sustainable, providing further clarity for investors on the products they are investing in as well as adding credibility where asset managers and funds have made assertions regarding green investments. In order for the Taxonomy to be useful for both corporates defining sustainable products and investors identifying such products, it must be easy to understand.
15. However, the UK Green Taxonomy will have limited benefit if the scope is strictly covering environmental sustainability. Many sustainable/ESG funds go beyond green objectives to include social-related activities. The limited scope if applied under the SDR and labelling regime would only cover green activities and for the social activities these would remain principles based and self-assessed. This could undermine both regimes' objectives and drive greater ambiguity and perceptions of greenwashing if some elements have clear criteria and others remain open to interpretation.
16. The Green Taxonomy may also be useful in the issuance of green bonds. The current **framework** used to issue green gilts is a helpful example for the development of the Taxonomy. It shows the eligible green expenditures in a closely and simply defined way. However, the social co-benefits of the objectives and subcategories are not clearly spelt out and this could limit adoption.
17. This could be a good starting place if the idea is to keep the framework narrow and simple. There may, however, be unintended consequences should any new Taxonomy come into conflict with the one used for green gilts, such that they are not compliant, particularly as gilts are long dated and therefore any subsequent transitional elements may have adverse impacts on the gilts.

Question 2e: For each use case identified, do respondents have any concerns or views on the practical challenges?

18. Challenges will include the complexity of implementing and maintaining the Taxonomy, the need for regular updates, and ensuring interoperability with other taxonomies. For instance, companies may need to invest in new systems and processes to comply with the Taxonomy's requirements, which could be resource-intensive if they add to the complexity of sustainability disclosure requirements. Additionally, if certain transition activities are currently included in the Taxonomy but may no longer be included in the future as the criteria becomes stricter with progress, these changes need to be adequately and timely communicated to organisations that must comply with the Taxonomy so that they are able to adapt/improve.
19. When consulting with members on this a specific example of unintended outcomes came from the insurance market when applying the EU Taxonomy, which the UK could learn from to avoid. The issues for insurers with the EU Taxonomy revolve around how to allocate premiums to taxonomically aligned activities. The detailed rules have resulted in low proportions of activities being seen as aligned with climate change mitigation for instance, which doesn't reflect the overall insurance activities. The specificity required in the EU Taxonomy has led to outcomes that are not useful for investment decision making.
20. Speaking to accountancy firms advising clients on using other taxonomies, there is an implicit assumption that the Taxonomy will be used by financial markets to aid in decision-making, with the intended outcome of driving capital to green activities, however, for those currently using the EU Taxonomy, firms are not seeing financial institutions (FI) actually using it in decision-making, whether they are a lender or investor. Rather, FIs are simply

focused on how to meet the disclosure requirements. Additionally, corporates currently are seeking for advice on what is the minimum they need to do to meet the assurance requirements, rather than how to maximise performance. In order for the UK Green Taxonomy to be used widely, as intended, then the UK needs to learn the lesson of the EU and not create something that is simply regarded as a compliance exercise with no strategic value.

Questions 2f: 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)?

21. The government could provide oversight, ensure ongoing maintenance, and implement legislation to support the Taxonomy's use and integration into broader sustainability policies. This would include designating regulatory oversight to an existing regulator's remit such as the FCA's, engaging with stakeholders to ensure it meets their needs, and updating the Taxonomy regularly to reflect new developments in sustainability.

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

22. A UK Taxonomy could support the allocation of transition finance by providing clear criteria for identifying activities that contribute to the transition to a low-carbon economy. Design features such as specific thresholds for emissions reductions and criteria for transition activities can facilitate this. For example, the Taxonomy could include criteria for activities that reduce greenhouse gas emissions, such as renewable energy projects or energy efficiency improvements.
23. **This report** argues that the EU Taxonomy's approach of simply classifying transition activities as either "green" or "non-green" (or "compliant" vs "non-compliant") is too simplistic. This binary approach restricts the variety of investment strategies available to investors and limits the potential for transition finance, which requires more nuanced and flexible criteria to support broader range of sustainable activities.
24. The UK Taxonomy, however, has the opportunity to adopt a more flexible and inclusive approach. Unlike the EU's binary system, the UK framework can be designed to recognise and support activities that are on a pathway to becoming sustainable. This adaptability allows for a more nuanced assessment, accommodating transition plans and gradual improvements, which could better align with the realities of achieving net zero goals.

Question 6: In which areas of the design of a UK Taxonomy would interoperability with these existing taxonomies be most helpful?

25. Interoperability with existing taxonomies would be most helpful in areas such as naming conventions, thresholds and relevant metrics. This would facilitate consistency and comparability across jurisdictions. The UK should learn from others by producing a simplified system to maximise usage and minimise reporting burden.
26. Where the UK Taxonomy deviates from others, particularly those of the EU, China and ASEAN region which has several taxonomies in place, creating a "common ground Taxonomy" guidance document would be useful in highlighting any additionality or deviances to support those large companies that are captured by the EU or other major markets to most effectively report against both.

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

27. We need to learn from the implementation process of EU Taxonomy, in that the EU Taxonomy is far too granular and therefore organisations are approaching this as a compliance exercise rather than a tool to inform financial decision-making. If the UK Taxonomy is designed to make it easier for investors to make decisions, then the Taxonomy

must be designed with a simple classification system which can easily be referenced in sustainability disclosure requirements.

28. The Technical Screening Criteria of the EU Taxonomy is rigorous and embedded in science. Being led by the science is important, but from a usability perspective, applying the UK Taxonomy needs to be simple so that organisations do not get too stuck in the technical detail and the exercise becomes too much of a burden. It would be advantageous to keep this high level so that the intended audience is more receptive to it.
29. We would recommend adopting a similar traffic light system to that of the [Singapore Green Taxonomy](#) to distinguish between activities aligned with a 1.5 degree pathway, transition activities that will need to be phased out, and ineligible activities that are incompatible with a 1.5 degree pathway.

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

30. As noted by the Transition Finance Market Review, transition finance should be accessible economy-wide and not limited to a number of sectors. However, there are of course certain high-emitting sectors or those that are underperforming on environmental measures that the government could prepare sector specific guidance to encourage capital flows to more harmful sectors. Those sectors could include energy, water (utilities), transportation, agriculture, and manufacturing, which have significant environmental impacts. The UK agriculture sector has been historically poor at crowding in investment and has made little progress in improving environmental performance so including sector-specific guidance as part of the Taxonomy could help direct investment towards practices that reduce environmental impacts and enhance biodiversity. This sector would need significant support in utilising and adhering to the Taxonomy.
31. The Government should ensure that any sectors they choose to be covered first by the Taxonomy are linked with the Industrial Strategy so that UK business competitiveness is considered alongside sustainability goals. We urge the Government to assess where their priority sectors are for directing capital and how the Taxonomy can be a lever to supporting those capital flows.

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

32. To help interoperability, the Taxonomy should focus on objectives similar to those introduced by other jurisdictions such as the EU and China. The objectives should therefore include climate change mitigation, climate change adaptation, sustainable use of water and marine resources, transition to a circular economy, pollution prevention and control, and protection of biodiversity/ecosystems. These objectives should be prioritised based on their environmental impact and alignment with national and international sustainability goals.

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?

33. It is fundamentally important that a UK Taxonomy has a clear purpose, objective and intended audience/user that is well communicated and understood with relevant stakeholders. This should be supported by clear and detailed criteria, quantitative and qualitative thresholds, and user-friendly formats to maximise usability for investors and those seeking investment. For instance, providing detailed guidance on how to meet the criteria and using a user-friendly format could help ensure the Taxonomy is widely adopted.
34. In our response to the Transition Finance Market Review (TFMR) - [Transition Finance Market Review - Call for evidence](#) - we also called for the need for clarity and a Taxonomy over what is meant by transition finance first and foremost and this should be supported by a Taxonomy that adopts a similar approach. The UK Green Taxonomy should include criteria for transition finance, including a clear definition for what this is, utilising the findings and recommendations of the TFMR to provide this clarity.

35. We suggest the Taxonomy adopts a similar traffic light system to other jurisdictions to clearly show which economic activities are ‘amber’ and will need to be phased out as we transition to a net zero economy. It may be useful to reference the **GFANZ four transition finance strategies** when developing this system, those being;
- **Climate solutions:** Financing or enabling entities and activities that develop and scale climate solutions.
 - **Aligned:** Financing or enabling entities that are already aligned to a 1.5 degrees pathway
 - **Aligning:** Financing or enabling entities committed to transitioning in line with 1.5 degrees aligned pathways
 - **Managed phaseout:** Financing or enabling the accelerated managed phaseout (e.g., early retirement) of high-emitting physical assets.
36. We would also recommend the use of the Transition Finance Classification System that builds upon the GFANZ work, as produced by the TFMR.
37. If the UK publishes and enforces a UK Green Taxonomy, it must be accompanied by clear guidance on how it should be applied to avoid broad interpretations, whilst ensuring that materiality is applied. A clear concept of materiality will enable consistent and practical application of the Taxonomy across the market. We urge the Government to consider the costs and benefits of implementing the Taxonomy to ensure that the burden on organisations to comply does not outweigh the intended outcomes.

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

38. Incorporating this principle could involve setting criteria to ensure that activities classified as sustainable do not cause significant harm to other environmental objectives. For example, a renewable energy project should not negatively impact biodiversity or water resources. The Government has a responsibility to ensure that other policies and regulations are sufficiently in place to support this principle rather than act against it.
39. To make this principle easy to apply, the Government should establish clear and consistent criteria that are streamlined compared to the EU which has over 700 criteria. We should be pragmatic when adopting the Do No Significant Harm (DNSH) principle into the UK Taxonomy and provide certain guardrails and guidance around how it is applied. For instance, we could agree that all environmental goals have equal weighting but there may need some prioritisation. We must acknowledge trade-offs will occur, for example, should all hydroelectricity be deemed unsustainable because of potential damage to marine/wildlife or is growing sustainable energy more important? The Government should provide guidance on dealing with trade-offs, perhaps seeking input from the **Capitals Coalition** on integrated thinking and managing trade-offs.
40. The Government should also consider there being a phased and flexible approach to reporting for organisations disclosing how they align against the Taxonomy. The Government should adopt an approach to reporting that would enable companies with activities that are partially Taxonomy aligned to disclose the extent to which they meet it and include information on how they plan to become fully aligned through the company transition plans.
41. We would also note that although the Taxonomy focuses on environmental outcomes, when considering the DNSH principle, this should also take into account social outcomes to enable a just transition.

Question 13a: It is likely a UK Taxonomy would need regular updates, potentially as often as every three years. Do you agree with this regularity?

42. Given the rate of change in the sustainability landscape and our understanding of the science develops, three years is enough time to assess the relevance of the Taxonomy, to communicate planned changes and implement the new Taxonomy. This frequency allows for the incorporation of new scientific findings and technological advancements whilst giving

businesses time to adapt. This also aligns with the transition planning cycle recommended by the Transition Plan Taskforce.

Question 13b: Would this pose any practical challenges to users of a UK Taxonomy?

43. Regular updates may pose challenges such as the need for continuous monitoring and adaptation by users. Companies may need to invest in new systems and processes to comply with updated criteria. Clarity will also be needed on economic activities that are unlikely to be permitted as green in the Taxonomy in the long term, otherwise there could be unintended consequences of companies choosing to invest in activities that turn out not to be deemed 'green' in the next three years. Having a traffic light system may help organisations anticipate activities that may be phased out in the future and mitigate some of these risks.

Questions 13c: Would this timeframe be appropriate for transition plans?

44. This timeframe is appropriate for transition plans as recommended by the Transition Plan Taskforce, allowing for periodic review and adjustment. Regular updates can ensure that transition plans remain aligned with the latest sustainability standards and best practices. As recommended by the TPT, if there are any significant changes then appropriate revisions should be made.

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

45. In the immediate and short-term, governance and oversight arrangements should include a dedicated body responsible for maintaining and updating the Taxonomy, stakeholder engagement processes, and mechanisms for ensuring compliance and transparency. The most suitable body would be the FCA to oversee the Taxonomy, engaging with stakeholders to gather feedback, and ensuring that the Taxonomy is regularly reviewed and updated. Over time (medium to long-term) we would expect a UK Taxonomy and the sustainable finance ecosystem to become more integrated with and synonymous with business-as-usual finance and able to effectively support a world of sustainable economies.
46. From a report preparer perspective, there must be a predictable approach to how the Taxonomy gets reviewed. The Government must develop a rigorous review process that is led by the science, that considers technological advancement and is effectively communicated to stakeholders to limit any major unexpected developments, with a strong due diligence process for anything that is expected to change. It would be useful to create a forum or directory whereby industry can collaborate with government and be consulted on to inform any future changes to the Taxonomy.