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UK Green Taxonomy – Initial recommendations published

October 25, 2022

Earlier this month, the United Kingdom's Green Technical Advisory Group ("**GTAG**") published its Advice on the Development of a UK Green Taxonomy (the "**Report**"). This is the first stage of analysis published by the GTAG and forms the basis of non-binding recommendations that it provides to the UK Government.

By way of background, the UK has onshored the majority of the EU Regulation on the establishment of a framework to facilitate sustainable investment (the "**EU Taxonomy")** , which sets out the high-level design features of the taxonomy in the UK. However, the Delegated Acts that include the TSC – the detailed criteria for significant contribution and do no significant harm ("**DNSH"**) for climate change mitigation and climate change adaptation – have not been onshored as they were introduced following the UK's exit from the European Union.

Onshoring the EU Taxonomy - "Adopt some and revise some"

The GTAG has recommended a two-track approach of "*adopt some and revise some*". This involves onshoring the majority of the EU Taxonomy's Technical Screening Criteria ("**EU TSC**") as soon as possible, save for a few elements that stakeholders have identified as problematic, in particular in relation to the DNSH criteria, many of which reference EU law which creates difficulty in applying the criteria directly to the UK Green Taxonomy.

International interoperability

The GTAG has analyzed the international taxonomy landscape and summarized the lessons learnt from other taxonomies for the UK Government. GTAG advised that the UK Green Taxonomy should be science-based, comprehensive and dynamic. The UK criteria should be internationally comparable; meaning it is threshold-based or process-based and measurable. In general, a strategy that is consistent with the EU Taxonomy is likely to have fewer costs and more benefits than one which is more ambitious in some criteria and less in others.

Taxonomy use cases

The Report sets out a summary list of use cases and GTAG has advised that a primary focus should be wider compulsory sustainability reporting for public and private companies, as well as limited liability partnerships, which would include financial institutions. This would help address the issue of data gaps for financial market participants that are required to deal with greenwashing concerns and create a better understanding of climate and sustainability risks, and opportunities in the real economy.

Next steps

The GTAG has a mandate of two years, and will continue to provide independent, non-binding advice on the key questions on which it believes the UK Government should seek input before it finalises its legislative proposal.

The GTAG advice is non-binding and does not directly impact firms, but similarly to the role that the Platform on Sustainable Finance plays in the EU legislative process with its recommendations to the European Commission, GTAG's recommendations are indicative of the UK's ESG framework.

The Report provides no update on when we can expect the UK Green Taxonomy, but the recommendations were published in advance of the UK Government's anticipated consultation on the TSC for the first two of the six environmental objectives of the UK Green Taxonomy, which is expected to commence towards the end of 2022.

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