
Response to HMT consultation on a UK Green Taxonomy

6 February 2025

Introduction

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the value case for a UK Green Taxonomy (Taxonomy). We welcome the government's initiative to engage with companies and financial institutions to ensure that there is a clear value case for a Taxonomy, reflecting upon progress in other areas such as sustainability disclosures, transition planning and the findings of the UK Transition Finance Market Review (TFMR).

The Government's decision regarding the development of a UK Taxonomy must be situated within its wider economic policy priorities, including its mission to finance growth and enhance UK competitiveness in a global policy landscape. As our members have seen from experience in other jurisdictions, taxonomies are resource intensive to develop and maintain and challenging to implement. The European Commission is set to release an "omnibus" proposal for regulatory simplification and burden reduction later this month including the EU Taxonomy and other key sustainable finance legislation. In the US, the new presidential administration has instituted a rulemaking pause. AFME members support the Government's vision set out in its Financial Services Growth and Competitiveness Strategy of a streamlined regulatory regime and effective policy framework that supports innovation and fosters growth in sustainable finance markets¹. It is important to assess to what extent the development of a Taxonomy would support achieving this strategy. The government must prioritise the policy measures which will facilitate market growth.

Q1. 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?

As set out in AFME's priorities for the government², we believe that the government should prioritise:

- a) putting in place the policies, roadmaps, incentives, mandates and investments for the real economy to have the information, the tools and the incentives to adapt their businesses;
- b) the endorsement and consultation on the adoption of UK Sustainability Reporting Standards (SRS) aligned with the standards developed by the International Sustainability Standards Board (ISSB);
- c) consulting on the adoption of transition plan disclosures for listed and unlisted companies; and
- d) following up on the recommendations of the TFMR to facilitate transition finance.

We continue to believe that these are the most impactful priorities for the government in achieving the objectives of mitigating greenwashing and channelling capital in support of the government's sustainability objectives. They are also the most impactful priorities in supporting the government's Financial Services Growth and Competitiveness strategy. The development of any Taxonomy should not be prioritised above these. This is especially important given that international experience suggests that designing a Taxonomy would be significantly time and resource consuming. It would likely take a number of years and there is a risk that its development could divert public and private resources from other important activities, including the ones outlined above and other activities aimed at supporting the government's growth objective.

¹ See AFME's response to the consultation on the Financial Services Growth and Competitiveness strategy, available [here](#).

² Sustainable finance in the UK: Partnering with the financial sector to deliver green growth, July 2024, available [here](#).

Beyond the above priorities, there is a range of views amongst our members as to whether a Taxonomy would be distinctly valuable. A majority of our members do not consider that a Taxonomy would add sufficient value in achieving these objectives. A minority of members do see potential value in a voluntary Taxonomy as a tool which could complement the above policies.

In assessing the value of a UK Taxonomy and evaluating potential design features, it is important for the government to consider its mission to enhancing UK competitiveness and encouraging growth. A UK Taxonomy that inhibits progress towards these aims would not be sufficiently justified.

Channelling Capital in Support of Sustainability Objectives

The most impactful policies to mobilise capital in support of the government's sustainability objectives are putting in place the policies, roadmaps, incentives, mandates, and investments to establish the economic conditions to support the transition. These should be supported by taking forward the recommendations of the TFMR and proceeding with the consultations on the introduction of sustainability reporting standards and transition plans. These policies are a significant amount of work for the government, regulators, non-financial companies and the financial sector. The majority of members do not consider that the introduction of a Taxonomy would add significant value in support of this objective³.

For the reasons set out in our response to Q3 below, a Taxonomy is not the most effective tool to scale transition finance in the UK. In addition, the government setting out more detailed roadmaps for sectors of the economy consistent with its sustainability objectives will also provide a reference point, potentially serving the purpose of a Taxonomy as well as driving real economy change. However, a Taxonomy could potentially be a supplemental tool supporting the goals of the TFMR by providing a UK-specific science-based reference for transitioning companies, providing a distinction between green and transition finance.

A majority of members consider that the government does not need its own classification system to provide public finance or incentives to spur investment in the green transition. To provide an example, the European Investment Bank's (EIB) "Green Eligibility Checker" does not use the full EU Taxonomy Technical Screening Criteria (TSC) when designing financing and incentive schemes for investment. The EIB uses the substantial contribution TSC in conjunction with their own frameworks to give it the flexibility it needs to allocate finance. The government should consider whether the Taxonomy would integrate with the operations of the National Wealth Fund and whether its full development would provide the National Wealth Fund with the flexibility needed to select and allocate funding to domestic projects.

Preventing Greenwashing

While a science-based Taxonomy could help address greenwashing risks, a majority of members consider that the introduction of a Taxonomy would not exhibit sufficient additionality to the policy goal of curbing greenwashing when considered alongside current disclosure frameworks and existing regulation.

As discussed further in our response to question 2, a minority of members would highlight that a science-based Taxonomy can contribute to mitigating greenwashing by providing a common reference point to government, financial institutions, and businesses for the "greenness" of financial products. The majority of members, however, would conclude that a Taxonomy would not be distinctly valuable in mitigating greenwashing risk in addition to existing policy tools.

At the entity level, Task Force on Climate-related Financial Disclosure (TCFD) reporting is already widespread, and, thanks to the development of UK SRS aligned with ISSB standards, sustainability reporting will soon become more detailed, accurate and standardised. Once these standards are implemented, financial

³ For a more detailed discussion of the effectiveness of a Taxonomy to drive investment, see Department for Business and Trade, "[The EU Taxonomy Framework: Research On The Impact On Companies](#)", e.g. pg 14.

institutions will have access to the high-quality credible corporate sustainability data needed to make financing decisions.

At the financial product level, the UK already has a consumer-focused product disclosure regime in the form of the FCA's SDR and associated investment labels. This is supported by the FCA's anti-greenwashing rule and consumer protection regulation emanating from the Competition and Markets Authority and Advertising Standards Agency.

Q1b. How can activity-level standards or data support decision making and complement other government sustainable finance policies and the use of entity-level data (e.g. as provided by ISSB disclosures or transition plans)?

As discussed further in our response to Q2, the most relevant Taxonomy use case for AFME members would be to serve as a single, science-based, voluntary reference point for assessing what activities can be classified as "green". An activity-based classification system could complement entity-level disclosures by filling in the gaps and providing a more comprehensive picture of the carbon performance of specific operations within an organisation. For instance, while ISSB disclosures and transition plans provide an overview of a company's sustainability strategy and performance, an activity-based classification system can offer specific metrics and targets for individual projects and could be used for developing activity-level financing. This detailed information could support the development of robust transition plans, although members stress that this should not be prioritised ahead of other more critical elements of the UK policy framework required to support the transition (see Q1 response).

Q2. What are the specific use cases for a UK Taxonomy which would contribute to the stated goals? This could include through voluntary use cases or through links to government policy and regulation.

It is important to understand that a taxonomy in itself does not drive the mobilisation of capital, which will be driven primarily by policy and economic incentives. While there are potential use cases for a Taxonomy, as set out in our answer to Q1, the government should prioritise putting in place the policies, roadmaps, incentives, mandates and investments for the real economy to adapt their businesses.

A Taxonomy is only one voluntary reference point and other reference points are already available and used in the market. The bigger question remaining, then, is whether existing taxonomies or other reference points available in the market already meet this need and whether the significant time and resources spent developing a Taxonomy justify the potential value that a Taxonomy would provide. A majority of members consider that the introduction of a Taxonomy does not add sufficient value to the existing UK policy framework.

With this context in mind, if a Taxonomy were to be taken forward, below are some potential use cases.

A common reference point for government, financial institutions and businesses

For AFME members, the most relevant use case for the Taxonomy would be to serve as a single, science-based voluntary reference point for assessing what activities can be classified as "green" (see our response to Q1b above). This single reference point could facilitate market consistency and mitigate greenwashing. It is, however, important to make clear that this use case is distinct from a taxonomy being used as a disclosure framework and does not involve the introduction of reporting. The majority of members agree that any UK Taxonomy should not be accompanied by disclosure requirements.

For banks, a Taxonomy could be used for designing internal sustainable finance frameworks and structuring financial products for banks' clients. From a bank's internal perspective, the Taxonomy could inform the common criteria which a business would need to adhere to in order to secure green debt financing across different institutions. A Taxonomy could be particularly useful to banks as a reference for use of proceeds

instruments which finance a specific activity. Debt instruments structured to align with EU Taxonomy criteria (including the EU Green Bond Standard) are perceived as “best in class” instruments when compared with those aligned with existing market standards from industry bodies.

Some members also note, in line with the TFMR recommendations⁴, that a Taxonomy could be used by a financial institution as a tool for benchmarking transition finance. See our response to Q3.

Although some members do consider a Taxonomy to be distinctly valuable in this area, most are of the view that it would not exhibit sufficient additionality. A majority of members believe that the development of clear government-backed pathways could serve as a reference point in a similar way to a Taxonomy and, therefore, achieve its main benefit.

Finally, we do not see a Taxonomy as useful for risk management purposes as taxonomy alignment is not an appropriate proxy for risk.

Q3. Is a UK Taxonomy a useful tool in supporting the allocation of transition finance alongside transition planning? If so, explain how, with reference to any specific design features which can facilitate this.

It is the view of a majority of AFME members that a Taxonomy is not a sufficiently additional and necessary tool, alongside setting out sectoral policy and transition planning, for supporting the allocation of transition finance. We believe that the priorities set out above are consistent with the findings of the TFMR and strongly encourage the government to take forward the TFMR recommendations.

Chapter 4 of the TFMR discusses in detail the challenges involved in transitioning entities to net-zero and identifies credible transition plans as the most effective lever to achieve credibility in the transition finance market. Much of the transition finance required to achieve net-zero takes the form of general-purpose corporate finance, particularly refinancing existing corporate debt for carbon-intensive sectors, which constitutes almost 1/3 of outstanding non-financial corporate debt⁵. Issuers’ transition risk will start to materialise as issuers refinance this existing debt. As discussed in our response to Q1b above, while an activity-level classification system can support effective transition planning by showing which activities within a business are most carbon intensive/in need of financing, these are best contextualised within a wider transition plan.

The TFMR’s Transition Finance Guidelines recognise this reality – the Transition Finance Guidelines reference taxonomy criteria in its “activity-level” factors only, while the “entity/strategy factors” only reference to the GFANZ guidelines on transition finance.⁶ The TFMR further recognises that defining transition finance against a static definition would not provide the required flexibility as the definition of “credible” transition finance shifts with the emergence of new technologies and the differences in starting points across various sectors and geographies.⁷

A minority of AFME members do, however, consider a Taxonomy to be distinctly valuable for supporting the allocation of transition finance.

Of these, some members would emphasise that a Taxonomy, including one without any “transition” elements, as discussed below, could be a useful tool in supporting transition finance via its use case as a common reference point for identifying “green activities”. The TFMR acknowledges that a taxonomy can serve as one potential avenue for identifying credible transition finance; for example, capex funding to align an asset with a taxonomy could be considered “credible” transition financing. Similarly, a Taxonomy could also support the

⁴ [Scaling Transition Finance: Findings of the Transition Finance Market Review](#) (TFMR) pg 31

⁵ TFMR pg 71

⁶ TFMR pg 31

⁷ TFMR pg 88

design of credible transition plans and help to measure progress against them by reference to specific Taxonomy aligned metrics and indicators.

Others believe that a UK Taxonomy should provide a clear delineation between environmentally sustainable and transition activities – as well as the mechanism to move between the two. For example, they consider that establishing a Taxonomy which integrates transition elements similar to those found in the taxonomies established in Singapore, ASEAN, and Australia, could be beneficial in mobilising finance for the transition to a sustainable economy. These taxonomies use traffic light systems, integrating transition elements designed to guide investments towards activities that contribute to national environmental goals, even if they are not yet fully sustainable. For example, the Singapore-Asia Taxonomy classifies activities as green, amber (transition), or ineligible. Transition activities are also given specific timeframes within which to achieve “green” status. By adopting a similar approach, a Taxonomy could provide clear guidelines and incentives, thereby facilitating the flow of capital towards projects that support the transition to a low-carbon economy.

In summary, to mobilise transition finance, the majority of AFME members consider that the UK government’s efforts would be better placed in implementing the recommendations of the TFMR, which does not see the lack of a taxonomy as a barrier, and providing clear sector roadmaps and routes to decarbonisation, but a minority of AFME members highlight that a Taxonomy, either via its use as a common reference point or via design features inclusive of transition elements, could form part of the UK’s policy roadmap for decarbonisation.

Key design features and characteristics to maximise effectiveness and interoperability

Q7. Are there any lessons learned, or best practice from other jurisdictional taxonomies that a potential UK Taxonomy could be informed by?

AFME’s global umbrella organisation, the [Global Financial Markets Association](#), published in June 2021 a set of [global guiding principles for developing climate finance taxonomies](#). These high-level design principles remain relevant to consider in developing a UK Taxonomy.

Although the majority of members are of the view that a UK Taxonomy would not add material value in achieving the government’s stated policy goals, if the government does decide to take forward its development, in addition to the high-level principles listed above, it should also take into account the following specific considerations:

First and foremost, any Taxonomy should be developed for use as a classification framework for voluntary use only. The UK should not replicate the EU Taxonomy disclosure requirements which require mandatory reporting. Indeed, the primary legislative purpose of the EU Taxonomy was not centred around disclosure; rather, it was designed to assist companies in evaluating the compatibility of their activities with EU sustainability objectives and to facilitate financing for sustainable initiatives. Reporting under the EU Taxonomy has created significant challenges for banks and has not led to meaningful disclosures which help investors to understand bank’s investments in environmentally sustainable activities. Introducing reporting against a UK Taxonomy would give rise to significant issues, particularly for banks with an international reach, who would have to report against multiple jurisdictions’ taxonomies⁸. Furthermore, in light of the government’s focus on removing regulatory barriers that hold back UK competitiveness and growth⁹, any introduction of new regulatory requirements should be sufficiently justified. Given the existing disclosure

⁸ If mandatory reporting were to be introduced, it would be important for the government to apply a degree of proportionality with respect to the taxonomy disclosures of UK branches of EU and international banks.

⁹ The UK Chancellor on [removing the regulatory barriers to growth](#)

landscape with TCFD, SDR and ISSB discussed above, further reporting against the Taxonomy would be unnecessary.

Second, it is important that any Taxonomy including its TSC are interoperable with taxonomies in other jurisdictions, particularly the EU. A large number of jurisdictions have now introduced, or are the process of introducing, taxonomies. This leads to significant complexity for companies and financial institutions operating in multiple jurisdictions. We therefore strongly support the government's appreciation that international interoperability is a particularly important factor in any future development of a usable Taxonomy. The GTAG stressed that mandating reporting against taxonomies containing different TSC would create confusion for financial institutions – for example, whether an asset can be held in a “green” portfolio if it is classified as taxonomy-aligned in the EU but not in the UK.¹⁰ A taxonomy should maximise the ability for companies to leverage international standards or existing reporting when assessing compliance with any minimum social safeguards or TSC¹¹. As the government has set out in the consultation, interoperability of taxonomies is not straightforward, but we support reflecting on the work of the UK Green Technical Advisory Group (GTAG) and the International Platform on Sustainable Finance.

The government should reflect on experiences with existing taxonomies to maximise usability and avoid undue complexity. For example, an overly prescriptive approach to the DNSH principle should be avoided. We strongly support the government's focus on ensuring that any DNSH principle should be usable and proportionate. As evidenced by organisations' experiences in applying the EU's requirements¹², such an approach both inhibits interoperability (given DNSH criteria are tied to national legislation) and hinders usability, especially in the case of retail lending.

If the government decides to proceed with a Taxonomy, we would welcome a discussion with the government on the above factors, seeking to learn the lessons from members' experiences with other taxonomies and ensure that any Taxonomy is effective, usable in practice, internationally interoperable and does not create significant burdens for companies or financial institutions. It would also be essential to consult further on these key design features and to make sure that those tasked with the Taxonomy's design represent a broad range of stakeholders, including banks.

Q8. What is the preferred scope of a UK Taxonomy in terms of sectors?

In the context of the “common reference point” use case, which members have identified in our response to Q2, priority should be given to hard-to-abate sectors which are most in need of transition support (as discussed in the TFMR). Focusing on these sectors can provide a common, science-based definition of “green” activities where it is most needed. The scope of sectors should be informed by the UK government's industrial policy and the high-emitting sectors which are critical to the UK's transition.

Q10. When developing these objectives, what are the key metrics which could be used for companies to demonstrate alignment with a UK Taxonomy?

As discussed in our response to Q7 above, any Taxonomy should be developed for use as a classification framework for voluntary use only. For the minority of members who are supportive of using a Taxonomy for structuring financial products as discussed in question 2 above, the government could develop voluntary reporting templates for non-financial corporates to disclose their level of Taxonomy alignment across a few key metrics. This information would support the use case of the Taxonomy as a common reference point across financial institutions. In order for this use case to be viable, however, the TSC would have to be

¹⁰ See GTAG, “[Promoting the international interoperability of a UK Green Taxonomy](#)” pg 26-28 discussing the issues underlying interoperability and disclosure.

¹¹ See GTAG, “[Promoting the international interoperability of a UK Green Taxonomy](#)” pg 31 discussing interoperable TSC between the EU and UK.

¹² See the EU Platform on Sustainable Finance report, “[Platform Recommendations on Data and Usability](#)”, and AFME's recent report, “[A Review of the DNSH Assessment in the EU Taxonomy](#)”.

sufficiently straightforward for reporters to apply, an issue which has proved to be challenging in the EU context.

Q11. What are the key design features and characteristics which would maximise the potential of a UK Taxonomy to contribute to the stated goals? Please consider usability both for investors and those seeking investment. This may include but not be limited to the level of detail in the criteria and the type of threshold (e.g. quantitative, qualitative, legislative)

Please see our response to Q3 and Q7.

Q12. What are respondents' views on how to incorporate a Do No Significant Harm principle, and how this could work?

Please see our response to Q7. AFME's recent report, "A Review of the DNSH Assessment in the EU Taxonomy", describes in further detail the challenges which banks have faced in applying the EU DNSH principle to their lending portfolios.

Q14. What governance and oversight arrangements should be put in place for ongoing maintenance and updates to accompany a UK Taxonomy?

The governing body tasked with the Taxonomy's design should support the credibility of any Taxonomy as a science-based tool. However, it is important to ensure that the development process includes a broad range of stakeholders, including corporate users and banks, to maximise the usability and utility of any Taxonomy.

About AFME

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-European and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

AFME Contacts

Oliver Moullin
Managing Director,
Sustainable Finance,
General Counsel
Oliver.Moullin@afme.eu
+44 (0)20 3828 2712

Rachel Sumption
Manager, Sustainable
Finance
Rachel.Sumption@afme.eu
+44 (0)20 3828 2741

Matthew Harley
Manager, UK Advocacy
Matthew.Harley@afme.eu
+44 (0)203 828 2736

Jack Chapman
Graduate, Sustainable
Finance
Jack.chapman@afme.eu
+44 (0)20 3828 2762