

# GTAG issues further advice on UK Green Taxonomy

## AT A GLANCE

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### What's new?

- On 7 September 2023, the UK's Green Technical Advisory Group (GTAG) published two new reports setting out further advice on the development of the UK Green Taxonomy.
- The first, [Operational considerations for taxonomy reporting: assessing and dealing with data gaps and the use of proxies](#), sets out recommendations on how the Government can minimise data gaps, without placing an undue burden on businesses, and recommendations on the use of proxies and estimates.
- The second, [Treatment of green financial products under an evolving UK Green Taxonomy](#), sets out recommendations on the treatment of existing environmentally sustainable products when the UK Taxonomy is implemented, and how taxonomy-aligned activities, products and investments are treated as the taxonomy evolves.

### What does this mean?

- The GTAG is an expert group, chaired by the Green Finance Institute, providing non-binding advice to the Government on developing a UK Green Taxonomy. The group has previously published advice on other elements of the proposed taxonomy, and its recommendations are likely to form the basis of the UK requirements.

#### ***Data gaps and use of proxies***

- The first report sets out seven recommendations, aimed at addressing the data challenges facing companies when making taxonomy disclosures, and supporting improvements over time.
- The recommendations are:
  - The sequencing of mandatory disclosures should require non-financial companies to report before financial companies, to avoid sequencing challenges experienced in other reporting requirements.
  - The final data requirements should consider the particular challenges faced by companies with global activities.
  - The implementation of recommendations to enhance usability, which should encourage more voluntary reporting and therefore data availability. This would include streamlining the 'Do No Significant Harm' criteria. It also recommends the Government publish sufficient guidance to support adopters.
  - The Government should provide a forum for stakeholders to engage on data issues, to encourage transparency and engagement.
  - The framework should support the use of estimates when data availability is limited, particularly during the voluntary reporting period. This should include providing clear instructions on their use, and encouraging transparency on methodologies used by companies.
  - Finally, GTAG recommends the Government develops a reporting template to encourage more consistent reporting during the voluntary reporting period. This should be well-tested and well-developed.

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## Treatment of green financial products

- GTAG's advice in the second report is focused on the potential unintended consequences that may arise for existing financial products already marketed as 'sustainable', as well as the treatment of aligned products, as the taxonomy evolves.
- It recommends:
  - The Government must provide clarity on how existing green products will be treated when it comes into effect, and how aligned products will be treated as the taxonomy is reviewed every three years. It suggests, for equity and debt, a time restricted 'grandfathering' clause should be enforced.
  - The grandfathering clause should apply in instances where the criteria changes. Where existing green debt is refinanced, it should be assessed according to the rules at the time, and treated as new debt.
  - The group recommends the Government work closely with the FCA to ensure a consistent approach to green and sustainable bonds.
  - Finally, the report notes that the Government should publish additional supporting guidance, including methodology and detailed case studies, on assessing complex green investments.

## What do firms need to do?

- The reports are the latest in a series of publications from GTAG on the UK Taxonomy, and are likely to influence the final version. Firms should continue to monitor these publications.
- The challenges relating to data are likely to exist for most firms in the initial years of reporting, as well as in meeting other reporting requirements. Where businesses are using estimates in reporting, they should be consistent and transparent about the underlying methodologies in use.
- The UK Green Taxonomy is another significant piece of sustainability regulation, with complex links to the broader sustainability regulatory landscape, including UK SDR and transition planning requirements, and the EU Taxonomy. The UK Government consultation on the Taxonomy proposals, [expected in autumn 2023](#), will set out the Government's response to these recommendations, though it may be some time before the final rules are confirmed.
- Businesses should start planning how the UK Taxonomy could be implemented strategically across their organisation. Businesses should look to create an operating model that is as future-proof as possible, building in flexibility to meet the requirements of new regulation as it develops. Firms should consider how to build on their existing practices to do this in a way that is consistent with the EU Taxonomy, given the likelihood that the UK Taxonomy will draw heavily from the EU Taxonomy.

## Next steps

GTAG is expected to publish further guidance in the coming months. In its updated Green Finance Strategy, published in March 2023, the Government committed to consulting on the UK Taxonomy in autumn 2023 and publishing further detail on SDR implementation in summer 2023.

The finalised TPT Disclosure Framework and accompanying Technical Annex and draft Implementation Guidance is expected to be published in October 2023.

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