

GTAG publishes advice on applying the UK Green Taxonomy

AT A GLANCE

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What's new?

- The Green Technical Advisory Group (GTAG) published [advice](#) on applying the UK Green Taxonomy to wider policies on 15 August 2023.
- The advice makes recommendations on how the UK Green Taxonomy could be applied to other policy areas, including UK Sustainability Disclosure Requirements, transition planning disclosure and public finance, for HM Treasury to consider ahead of the [expected consultation](#) on proposals in autumn 2023.

What does this mean?

- The GTAG is an expert group, established in 2021 and chaired by the Green Finance Institute. It provides non-binding advice to the Government on developing a UK Green Taxonomy.
- The latest advice published by the GTAG makes recommendations to HM Treasury on how the UK Taxonomy could be applied to other policy areas and the bodies that the Government may wish to engage to implement the GTAG recommendations. This advice builds on the recommendations on UK Taxonomy use cases set out in the GTAG [advice](#) published in October 2022.
- The purposes of the GTAG recommendations are to 1) promote market integrity, consumer protection and the avoidance of greenwashing, and 2) mobilise capital to facilitate achievement of UK environmental policy goals, and/or track progress towards achieving these goals.
- The recommendations are divided by policy area, with recommendations relating to UK Taxonomy interactions with Government Policy, Tracking Progress, Consumer Protection, Public Finance, Local Public Finance, Private Sector and Foreign Investment.
- Included in the recommendations related to Government Policy are recommendations that corporate disclosure of Taxonomy alignment and eligibility should be required as part of the UK Sustainability Disclosure Requirements (SDR) regime, and that Taxonomy alignment and eligibility should be made a key component in the transition plan framework [being developed by the UK Transition Plan Taskforce \(TPT\)](#). The GTAG also recommends that the Government should ensure that public investments are consistent with the environmental objectives of the Taxonomy.
- In relation to Consumer Protection, the GTAG recommends that the FCA make Taxonomy alignment a key metric in its labelling regime.
- The advice also makes a range of other recommendations relating to local authorities, public procurement, public spending and how the UK should track progress against its environmental targets.
- The GTAG advice calls for the Government to publish and maintain a Policy Links Diagram that outlines UK Taxonomy policy interactions to provide clarity to the market on how the various sustainable finance policies interlink.

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- The advice also recommends that the Government should assign an independent “institutional home” for the UK Taxonomy to avoid politicisation of the technical content while enabling it to support the policy areas identified by the GTAG. The GTAG committed to setting out further detail on potential approaches to this institutional home in a separate paper.
- The recommendations on investment product labelling pose additional challenges for firms that intend to apply the FCA’s [proposed investment product labelling regime](#), including lack of understanding by retail investors and how to demonstrate the sustainability credentials of activities that are not covered by the UK Taxonomy alongside those that are. The FCA has [indicated](#) that it would not prescribe a particular standard for demonstrating sustainable impacts to allow flexibility for investment strategies based on a variety of taxonomies and standards. The FCA is expected to finalise its proposals in Q4 2023. Were the FCA to adopt the GTAG recommendation, firms planning on applying the labelling regime should upskill their staff and investors on Taxonomy reporting.

What do firms need to do?

- Requiring disclosure against the UK Taxonomy as part of SDR and the TPT framework could be onerous for businesses that must also report against taxonomies in other jurisdictions, particularly if there is significant divergence between those taxonomies. To mitigate this challenge, the GTAG reiterated its [previous recommendations](#) that the Government should use the EU Taxonomy as a basis and promote international interoperability.
- Should the Government follow the GTAG’s advice, businesses can expect the UK Taxonomy to be similar in structure and content to the EU Taxonomy. Businesses should, therefore, begin work to align their business activities and/or investments with EU Taxonomy criteria and develop a plan for obtaining the necessary data to report on alignment. Businesses should consider engaging investee companies, suppliers and data providers (as appropriate) now to understand and improve their available data. In particular, businesses that interact with public finance or engage in public procurement processes should consider taking these steps to ensure continued eligibility for these activities.
- Businesses that have already applied the EU Taxonomy should identify existing processes and frameworks that could be adapted to accommodate a UK Taxonomy that draws heavily from the EU Taxonomy.
- The UK Green Taxonomy is another significant piece of sustainability regulation, with complex linkages to the broader sustainability regulatory landscape in the UK and further afield, including UK SDR and transition planning requirements, and the EU Taxonomy. Businesses should engage with the Government consultation on UK Taxonomy proposals, [expected in autumn 2023](#), to support requirements that are proportionate and consistent with linked regulatory initiatives.
- Businesses should start planning how the UK Taxonomy could be implemented strategically across their organisations. 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.

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Next steps

- In its updated Green Finance Strategy, 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 will be published in October 2023.

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