UK GREEN TAXONOMY

IEMA Response to the Open Consultation

IEMA SUSTAINABLE FINANCE STEERING GROUP / 6 FEBRUARY 2025

IEMA Transforming the world to sustainability

iema.net
info@iema.net
+44(0)1522 540 069

CONTENTS

ABOUT IEMA

We are the Institute of Environmental Management and Assessment (IEMA). We are the global professional body for over 22,000 individuals and 300 organisations working, studying or interested in the environment and sustainability.

We are the professional organisation at the centre of the sustainability agenda, connecting business and individuals across industries, sectors and borders. We also help and support public and private sector organisations, governments and regulators to do the right thing when it comes to environment and sustainability-related initiatives, challenges and opportunities.

We work to influence public policy on environment and sustainability matters. We do this by drawing on the insights and experience of our members to ensure that what happens in practice influences the development of government policy, legislation, regulations and standards.

iema.net
info@iema.net
+44(0)1522 540 069

EXECUTIVE SUMMARY

A well-designed and rigorously implemented UK Green Taxonomy has the potential to become a cornerstone of sustainable finance, ensuring that capital is directed towards genuinely sustainable activities while preventing greenwashing. To achieve this, the UK must align its taxonomy with international best practices, particularly the EU Taxonomy's double materiality approach. This will not only enhance transparency and accountability but also provide UK businesses and investors with a globally interoperable framework, reducing compliance burdens and strengthening the UK's role in sustainable finance leadership.

By embedding double materiality, the UK Taxonomy will ensure that businesses measure and report not only how climate risks affect financial performance but also how corporate activities contribute to or mitigate environmental and social challenges. This approach enables investors to differentiate between firms making genuine sustainability progress and those engaged in surface-level compliance.

Many UK businesses already operate under the EU Taxonomy due to cross-border investments. Divergence between UK and EU standards could create unnecessary compliance burdens, requiring dual reporting and increasing costs for financial institutions and corporations. Where UK-specific adaptations are necessary, they should be designed to remain compatible with EU definitions, sectoral classifications, and technical screening criteria, ensuring continued interoperability and cross-border investment clarity

IEMA strongly supports a UK Taxonomy that:

- Embeds double materiality—ensuring that environmental and social impacts are considered alongside financial risks, in line with the EU approach.
- Aligns with global frameworks, including the EU Taxonomy, to ensure regulatory consistency and market efficiency for UK businesses operating internationally.
- Avoids regulatory divergence that could lead to higher costs, complexity, and reporting burdens for UK companies that interact with multiple taxonomies.
- Incorporates the Do No Significant Harm (DNSH) and Minimum Safeguards (MS) principles, ensuring that investments classified as sustainable do not create negative environmental or social externalities.
- Recognizes transition finance as a key enabler of the net-zero economy, with clear, science-based pathways for activities moving toward sustainability.
- Supports a broader range of environmental objectives, beyond climate mitigation, including biodiversity, circular economy, water, pollution prevention.

The UK Green Taxonomy is a critical tool for enhancing the credibility of sustainable finance, but its success depends on global alignment and robust governance. Double materiality, regulatory interoperability, and strong transition finance mechanisms will ensure the UK remains competitive in global sustainable finance markets. A taxonomy that diverges significantly from international standards risks creating inefficiencies, undermining investor confidence, and increasing compliance burdens.

IEMA urges the UK Government to seize this opportunity to develop a world-class sustainable finance framework, ensuring that the UK remains at the forefront of responsible investment and green economic growth.

iema.net
info@iema.net
+44(0)1522 540 069

Key Recommendations

To maximize the effectiveness of the UK Green Taxonomy, IEMA recommends that:

1. **Double Materiality is Integrated Across the Taxonomy**
    - Unlike ISSB's narrower financial materiality approach, double materiality captures both financial risks and real-world environmental and social impacts. This broader lens is critical for credible and responsible capital allocation.
    - Companies should disclose both how sustainability risks impact their business and how their activities impact society and the environment.
2. **The UK Taxonomy Aligns with the EU Taxonomy Where Possible**
    - Many UK-based multinational firms already adhere to the EU Taxonomy; significant divergence would create unnecessary complexity and reporting costs.
    - Interoperability with EU standards ensures comparability and investment certainty for UK businesses engaging in cross-border finance.
    - Where UK-specific adaptations are necessary, they should be designed to remain compatible with EU definitions, sectoral classifications, and technical screening criteria.
3. **The Taxonomy Includes a Robust Approach to Transition Finance**
    - Clear criteria must be established for transitional activities, ensuring that capital is directed toward meaningful, science-based decarbonization pathways.
    - A tiered framework, distinguishing fully sustainable activities from transition activities, should be implemented with clear improvement benchmarks.
4. **The Do No Significant Harm (DNSH) and Minimum Safeguards (MS) Principles are Strengthened**
    - The DNSH principle must be clearly defined and enforced, preventing investments that claim sustainability credentials while causing environmental or social harm elsewhere.
    - Guidance should be provided to ensure consistent application of DNSH and MS standards, learning from EU implementation experiences.
5. **Regular Updates are Managed to Ensure Stability**
    - While the taxonomy should be periodically reviewed, frequent major updates (e.g., every three years) could create regulatory uncertainty.
    - A tiered update process—with major revisions every five years and technical refinements every three years—would balance stability and adaptability.

iema.net
info@iema.net
+44(0)1522 540 069

IEMA RESPONSE TO THE CONSULTATION QUESTIONS (CHAPTER 2, QUESTION 1 - 4)

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?

We believe that, within the wider context stated, a UK taxonomy is distinctly valuable in supporting the goals of channelling capital and preventing greenwashing. The taxonomy will need to be designed and implemented with rigour and aligned with international standards. Ultimately IEMA is in favour of greater alignment with the EU Taxonomy and the concept of double materiality, rather than ISSB and the weaker concept of financial materiality.

If the UK Taxonomy diverges significantly from the EU framework, UK businesses could face additional scrutiny from international investors, reducing market competitiveness and potentially leading to capital flight toward jurisdictions with greater regulatory clarity.

QUESTION 1(A): ARE THERE OTHER EXISTING OR ALTERNATIVE GOVERNMENT POLICIES WHICH WOULD BETTER MEET THESE OBJECTIVES OR THE NEEDS OF STAKEHOLDERS?

A UK taxonomy could be an effective tool for channelling capital towards climate and sustainable investments while minimising greenwashing, since many other jurisdictions have adopted taxonomies to achieve the same objective. By enhancing the effectiveness of sustainable finance in the UK using the taxonomy, rather than seeking an alternative, the UK will remain aligned with the development of the global sustainable finance market.

The UK taxonomy could benefit from the development of complementary technical guidance materials to clarify what constitutes credible transition planning toward full taxonomy alignment. Such guidance materials could be non-mandatory but could provide economic entities and market players with benchmarks to guide sustainable investment decisions and mitigate greenwashing risks. Existing guidance on transition planning often focuses on specific thematic areas (e.g., net zero) or components (e.g., emission targets and strategies to achieve them), without addressing all conditions for taxonomy alignment or offering clear process management recommendations. This gap limits economic entities' ability to evaluate trade-offs and effectively navigate their transition to net zero.

Some recently issued taxonomies (e.g., ASEAN taxonomy, Indonesia's sustainable taxonomy) incorporate Remedial Actions for Transition (RMT) as part of their essential criteria. However, they lack the granularity needed to assess the clarity and credibility of transition plans. The *Financial Sector Guidelines for Credible Transition Finance* developed under the Transition Finance Market Review provide broad guidance on transition finance classification, but would benefit from more detailed guidance, particularly regarding Do No Significant Harm (DNSH) and Minimum Safeguards (MS).

To address these gaps, the UK taxonomy could expand and refine these guidelines, updating them periodically to align with technological advancements and regulatory changes, drawing on existing thematic guidelines on net zero, such as those issues by GFANZ, CDP, IFRS's TPT, etc., and those related to DNSH and MS, including IFC's Performance Standards (PS), Environmental health and Safety (EHS) Guidelines, and Equator principles. Materiality assessment can be required based on the guidance materials to make sure that all relevant risks are identified

iema.net
info@iema.net
+44(0)1522 540 069

comprehensively. By incorporating these elements, the UK taxonomy could develop granular guidance materials to support credible transition planning and ensure comprehensive alignment with its taxonomy requirements. See the answers to Questions 6 and 12 for more about how such guidance materials can support a tiered approach to address greenwashing risks.

QUESTION 1(B): 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)?

Activity level standards or data can support decision making at national, regional or entity levels, in implementing necessary adjustments to policy, regulatory frameworks, or corporate strategies. However, this is only effective if standards and data are consistently defined and collected across asset, entity, and portfolio levels—or even within each level—regarding methodologies and governance frameworks, including data management, can result in market fragmentation, higher transaction costs, data inconsistencies, and increased risks of greenwashing, as observed in the G-20 alignment report[1]. The UK taxonomy, consistent with Action 6 of the G-20 Sustainable Finance Roadmap[2], should collaborate with stakeholders such as the ISSB and ESG ratings and data providers, and offer guidance and incentives to encourage economic entities to align their activity- and entity-level standards and data with national and global frameworks. A common digital platform can also be established to promote consistency and accessibility of relevant data.

As set out under Question 1, IEMA advocates for double materiality as this enables a more holistic assessment by requiring companies to disclose not only financially material risks but also their broader environmental and societal impact. This ensures that sustainability risks are managed proactively rather than reactively, reducing systemic financial risks over time.

QUESTION 2: 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.

Key (voluntary and regulatory) use cases for a UK taxonomy include:

- Sustainable finance reporting and disclosure (standardised ESG reporting by financial institutions and corporate sustainability reporting)
- Eligibility criteria for green/sustainable financial products (defining green bonds and loans, as well as green investment funds)
- Public policy and regulatory integration (alignment with government policy initiatives and risk management and prudential regulation)
- Benchmarking and portfolio optimisation (benchmarking the performance of portfolios and guiding capital allocation decisions)
- Third-party verification and certification (independent verification of sustainability claims)

[1] www.imf.org/external/np/g20/091323.htm
[2] g20sfwg.org/roadmap/

iema.net
info@iema.net
+44(0)1522 540 069

QUESTION 2(A): WHAT ARE YOUR VIEWS ON THE BENEFITS OF THE PROPOSED USE CASE (PARAGRAPH 2.2)?

We agree with the use cases listed and these are likely to be the main uses of the taxonomy, and they should bring benefits in terms of profile, focus and consistency in standards. There is likely to be 'spill-over' in the use of the taxonomy from financial services into other sectors and it is more difficult to predict what the impact may be there. It may inform investment decisions in the private sector but it may have unforeseen impacts (positive and negative) on the operation and focus of corporates in the private sector and hence why ongoing monitoring and engagement especially in the first 1-3 years is important.

QUESTION 2(B): ARE THERE ANY OTHER USE CASES RESPONDENTS HAVE IDENTIFIED?

In addition to the examples in paragraph 2.2, other use cases are reported globally. See page 29 of the SBFN Toolkit[3] and page 15 of The New Geography of Taxonomies[4]. In addition, the Indonesian Ministry of Finance is coordinating with relevant agencies to harmonise regulations with the recently issued Transition Taxonomy in order to align real economy regulations and establish robust ecosystems for sustainable finance.

QUESTION 2(C): HOW DOES EACH USE CASE IDENTIFIED LINK TO THE STATED GOALS?

Some of the following links are noted:

- Sustainable finance reporting and disclosure de-risks investment and contributes to the stated goal of channelling funds where they are needed
- Eligibility criteria for green/sustainable financial products directly combats greenwashing
- Public policy and regulatory integration removes barriers to investment
- Benchmarking and portfolio optimization similarly de-risks and encourages investment
- Third-party verification and certification, again, directly combats greenwashing.

QUESTION 2(D): UNDER THESE OR OTHER USE CASES, WHICH TYPES OF ORGANISATIONS COULD BENEFIT FROM A UK TAXONOMY?

Other uses cases which might benefit from a UK Taxonomy (aligned with other international taxonomies) could benefit a wide range of financial products and ancillary services which support the financial sector and help to standardise the consideration of environmental issues across the whole sector and financial products and financial cycle.

A UK taxonomy could help the interface between the different stages of the financial cycle and the different organisations which interface with the cycle and different financial products. Use cases for the UK Taxonomy could also apply to Trade Finance, UK Export Guarantees, Project Finance as well as Insurance underwriting and guarantees. Preferably, additional use cases which can be applied quite widely to financial services/products and ancillary businesses which support financial services and may serve to ensure effective alignment and consistency across the sector and remove barriers which may hinder the flow of capital.

[3] www.sbfnetwork.org/sbfn-toolkit-developing-sustainable-finance-roadmaps
4 ieeb.fundacion-biodiversidad.es/sites/default/files/the_new_geography_of_taxonomies_updated_july_2023.pdf

iema.net
info@iema.net
+44(0)1522 540 069

QUESTION 2(E): FOR EACH USE CASE IDENTIFIED, DO YOU HAVE ANY CONCERNS OR VIEWS ON THE PRACTICAL CHALLENGES?

1. Sustainable finance reporting and disclosure

Practical challenges for standardising ESG reporting by financial institutions include:

- Many institutions lack consistent, high-quality data on ESG metrics. Disparate data sources and methodologies make it difficult to apply a single taxonomy uniformly
- Without an internationally harmonized standard, UK institutions may struggle with reconciling taxonomy-based disclosures with existing frameworks (TCFD, SASB, etc.). This could lead to increased reporting burdens and potential inconsistencies
- Integrating new taxonomy criteria into legacy IT systems and internal reporting processes can be both costly and time-consuming, particularly for smaller institutions
- If the use of the taxonomy remains voluntary initially, it could lead to patchy adoption across the industry, possibly undermining comparability and overall market confidence.

2. Practical challenges for corporate sustainability reporting include:

- Without robust third-party verification, there is a risk that voluntary corporate reporting may not withstand scrutiny, thus failing to prevent greenwashing claims effectively.
- Companies might rush to align with taxonomy criteria by 'window dressing' their reports, rather than making substantive changes to improve sustainability performance (*increasing* greenwashing).

3. Eligibility criteria for green/sustainable financial products:

- There is debate over where to draw the line for what qualifies as 'green.' Overly strict criteria might limit the pool of eligible projects, while too lax a standard could undermine credibility.
- Differing interpretations or local adaptations of taxonomy criteria could lead to fragmented markets, making cross-border investment decisions more complex.
- Uncertainty around the criteria may initially lead to lower liquidity for green bonds and loans. Investors could be hesitant if they believe that the criteria are subject to change or lack robust enforcement.
- Developing consistent methodologies for screening and monitoring portfolio companies against taxonomy criteria is challenging. Without clear benchmarks, funds may struggle to demonstrate genuine sustainability.
- The dynamic nature of sustainability science means that funds must continuously update their criteria and reporting. This ongoing effort adds an extra layer of complexity and cost, potentially impacting fund performance and attractiveness.

4. Public policy and regulatory integration:

- Effective integration requires coordination between various government bodies (e.g., the Treasury, the FCA, and the Department for Business, Energy & Industrial Strategy). Misalignment between policy objectives and regulatory practices could lead to implementation delays.
- Given that government policies may evolve with changing administrations, there is a risk that taxonomy criteria could be revised frequently, creating uncertainty for investors and companies planning long-term projects.

iema.net
info@iema.net
+44(0)1522 540 069

- It is important to keep the taxonomy aligned with the latest climate science. If the criteria are not periodically updated, they may become outdated, reducing their effectiveness in steering investment toward truly sustainable activities.
- Regulators and banks face challenges in incorporating taxonomy-aligned data into risk models, partly because historical data on green investments are limited. This creates uncertainty in stress-testing and risk assessments.
- If the taxonomy becomes a de facto benchmark, financial institutions may misprice climate risks or over-allocate capital to projects that meet taxonomy criteria without fully understanding the associated risks.

5. Benchmarking and portfolio optimization similarly de-risks and encourages investment:

- Constructing benchmarks based on the taxonomy involves complex methodological choices. Variations in how different sectors and activities are weighted could lead to benchmarks that are not fully comparable across portfolios.
- The availability and quality of data across different asset classes can be uneven, making it difficult to develop reliable and consistent benchmarks.
- For benchmarks to be effective, they must be widely accepted by market participants. There is concern that if initial benchmarks prove inconsistent or subject to frequent revision, investor trust may be undermined.
- Investors may be concerned about the potential for 'transition risk'—the risk that companies in sectors not immediately aligned with the taxonomy may become stranded assets. This creates uncertainty in capital allocation decisions.
- There is an inherent tension between short-term profitability and long-term sustainability. Financial experts worry that over-reliance on taxonomy criteria might force institutions to make capital allocation decisions that are not immediately financially optimal, at least until market conditions adjust.

6. Third-party verification and certification, again, directly combats greenwashing:

- Third-party verifiers must use consistent and robust methodologies. However, the current lack of standardised verification practices could lead to variability in how projects are assessed.
- The process of third-party verification is resource-intensive and can be costly, which may deter smaller firms from seeking certification or lead to a situation where only larger projects are scrutinised.
- Ensuring that verification bodies remain truly independent is a key concern. There is a risk that conflicts of interest could compromise the credibility of the certification process, thereby undermining efforts to combat greenwashing.
- As sustainability standards and scientific understanding evolve, verification processes must be updated regularly. This adds complexity and requires ongoing investment from both verifiers and the entities being verified.

In Summary:

There are four main concerns around the used cases explored above, which are: data quality and standardization; coordination and clarity between voluntary and regulatory approaches; methodological consistency and transparency; and cost, complexity and ongoing adaptability.

iema.net
info@iema.net
+44(0)1522 540 069

QUESTION 2(F): 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)?

1. Sustainable finance reporting and disclosure:

- The government, through bodies such as the Financial Conduct Authority (FCA) or other designated regulators, can mandate the use of taxonomy-aligned ESG disclosure requirements.
- It can issue guidelines that help institutions integrate the taxonomy into their existing reporting frameworks and ensure alignment with international standards.
- The government is responsible for monitoring compliance and taking corrective measures if disclosures are misleading or inconsistent, thereby building investor trust.
- The government can encourage companies to voluntarily adopt taxonomy criteria by linking them to incentives—such as tax breaks or preferential access to public contracts.
- While initially voluntary, the government may eventually transition corporate reporting toward mandatory compliance with the taxonomy through updated corporate governance regulations.
- It can also support companies (especially SMEs) by providing resources, training, or platforms that simplify the adoption of standardised sustainability reporting.

2. Eligibility criteria for green/sustainable financial products:

- Government agencies can develop or endorse specific criteria that green bonds and loans must meet to be considered taxonomy-aligned.
- The government may offer incentives—such as tax advantages, reduced capital requirements, or preferential procurement opportunities—for financial products that meet these criteria.
- By integrating the taxonomy into public finance initiatives (e.g., green infrastructure programs), the government helps set market expectations and drive consistent application across financial products.
- The government can require that publicly managed funds (like pension funds) or funds accessing public capital use taxonomy criteria when defining 'green' investments.
- It can promote transparency by mandating regular reporting of fund performance against taxonomy standards.
- Through consultations and collaborative efforts with industry stakeholders, government bodies can refine the criteria and encourage voluntary adoption among private investment funds.

3. Public policy and regulatory integration:

- Policy Leadership is a core function for the government. It sets the overall direction for sustainable finance (as seen in the UK Green Finance Strategy) and ensures that the taxonomy aligns with national environmental and economic objectives.
- The government must coordinate across departments (e.g., Treasury, Department for Business, Energy & Industrial Strategy, and regulators) to ensure consistency and clarity in how the taxonomy is applied.
- Government can require that public investment and procurement policies favour projects that meet taxonomy criteria, thereby creating a direct channel for directing capital toward sustainable projects.
- Through institutions such as the Prudential Regulation Authority (PRA) and the FCA, the government can integrate taxonomy criteria into risk management frameworks, capital adequacy assessments, and stress testing scenarios, providing regulatory oversight.
- The government can apply systemic risk monitoring by uses the taxonomy to better understand and manage systemic risks related to climate change and the transition to a low-carbon economy.

iema.net
info@iema.net
+44(0)1522 540 069

- The government can provide detailed guidelines on incorporating taxonomy data into risk models and ensure that evolving risks are promptly integrated into regulatory standards.

4. Benchmarking and portfolio optimization similarly de-risks and encourages investment:

- The government can help develop standardised benchmarks based on taxonomy criteria and endorse their use across the market, lending legitimacy to these benchmarks.
- It can facilitate data infrastructure support through access to reliable data by sponsoring or supporting initiatives that gather and validate sustainability data, ensuring that benchmarks are based on robust information.
- By requiring that certain publicly managed funds or regulated institutions report against these benchmarks, the government can help drive widespread adoption.
- The government can shape capital allocation indirectly by creating fiscal incentives, grants, or preferential funding for projects and sectors that meet taxonomy standards.
- Through its public statements and policy documents, the government sends clear signals to the market regarding which sectors and activities are priorities, thereby guiding private capital allocation.
- Government-regulated entities can use taxonomy-aligned data to refine internal models for capital allocation, ensuring that the risks associated with non-compliant or transitional sectors are properly priced.

5. Third-party verification and certification, again, directly combats greenwashing:

- The government can establish or endorse standards for third-party verifiers, ensuring that independent certification processes meet rigorous, transparent criteria.
- For certain products—especially those marketed as 'green'—government regulation may require that claims be validated by accredited third-party bodies.
- The government may also set up monitoring systems to ensure that verification bodies remain impartial and that their methodologies are periodically updated to reflect the latest science and market practices.

In summary:

Across each of these use cases, the government's role is varied. The government's role is as: policy maker and standard setter, crafting and updating taxonomy criteria to align with environmental and economic goals; regulator and enforcer, ensuring that financial institutions and corporations adhere to the established guidelines and thereby minimizing greenwashing risks; facilitator and coordinator, promoting coordination among public agencies, private sector participants and international bodies to ensure a harmonized approach; and incentiviser and supporter, offering fiscal incentives, public funding opportunities and infrastructural support (such as data and research) to encourage adoption of taxonomy-based practices. By actively engaging in these roles, the government can help ensure that the taxonomy not only guides financial flows toward sustainable investments but also maintains the integrity and credibility of the market as it transitions to a low-carbon future.

QUESTION 3: 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.

Yes, a well-designed UK taxonomy would be a useful tool in supporting the allocation of transition finance, working together with transition planning. It can help investors and companies understand which activities can be considered transition by providing clarity and guidance and setting clear benchmarks for improvement over time.

iema.net
info@iema.net
+44(0)1522 540 069

Separate thresholds or tiers for transition versus fully green investments can be incorporated into the design, setting lower entry barriers for transitional activities, providing there is a clear and verifiable improvement trajectory. This can encourage firms to set out credible transition plans that are monitored over time.

The design may also incorporate science-based and dynamic thresholds, ensuring that even transitional activities are not arbitrarily defined, but are linked to measurable environmental outcomes. This aids the assessment of the quality of a transition plan. Dynamic thresholds can be adjusted over time in line with the latest scientific data and policy goals. For example, as overall ambition increases (improved national targets), the criteria for what qualifies as transitional activity becomes more stringent, allowing for continuous improvement.

The taxonomy will need clear, quantitative metrics (for example, emission intensity benchmarks) that allow companies to measure progress and help investors track how well transition plans are being carried out. The taxonomy can require companies to disclose not only current performance but also detailed transition plans. This transparency allows investors to differentiate between companies that are merely greenwashing and those that have a robust, verifiable strategy to improve their environmental performance.

The taxonomy might be linked to mandatory disclosure frameworks, such as those under the Task Force on Climate-Related Financial Disclosures (TCFD), ensuring that companies provide consistent, comparable transition plans. Embedding requirements for independent verification of transition claims adds credibility and helps mitigate the risk of greenwashing, thus making the transition finance more reliable.

When the taxonomy clearly defines transitional activities, governments and regulators can design fiscal policies—such as tax credits, preferential funding, or lower capital requirements—that specifically target transitional finance. This alignment ensures that there is a direct channel for incentivizing companies to invest in improvements even if they are not yet fully green. Investors gain confidence when they know that not only are transitional investments clearly defined, but they are also supported by regulatory and fiscal incentives that help mitigate risks during the transition period.

The taxonomy can be integrated with government policies to offer benefits for investments in transitional activities, such as green bonds or loans that finance upgrade projects in traditionally carbon-intensive sectors. By having the government formally endorse taxonomy-aligned transitional activities, the market gains an additional layer of assurance that these investments are part of a broader, coherent policy strategy toward net zero.

In summary:

A UK taxonomy, if designed with these features, serves as a dual-purpose tool. It not only helps channel finance toward companies and projects that are actively working on transition plans but also supports the ongoing planning and reporting necessary to track and validate that transition. The key design elements—such as a clear transitional category, dynamic thresholds, rigorous reporting standards, and alignment with fiscal and regulatory incentives—are all instrumental in ensuring that transition finance is effectively directed toward sustainable outcomes while mitigating the risks associated with greenwashing.

QUESTION 4: HOW COULD THE SUCCESS OF A UK TAXONOMY BE EVALUATED? WHAT MEASURABLE KEY PERFORMANCE INDICATORS COULD SHOW THAT A UK TAXONOMY IS ACHIEVING IT GOALS?

Few taxonomies have undergone formal evaluations or provide clarity on processes for future additions, revisions, or updates. A notable exception is China, which has gone through several revisions and harmonisation of its various green catalogues. Also, Indonesia launched its Sustainable Taxonomy in 2024 based on stakeholder feedback to the 2022 Green Taxonomy.

IEMA RESPONSE TO THE CONSULTATION QUESTIONS (CHAPTER 3, QUESTION 5 - 14)

QUESTION 5: THERE ARE ALREADY SEVERAL SUSTAINABLE TAXONOMIES IN OTHER JURISDICTIONS THAT UK-BASED COMPANIES MAY INTERACT WITH. HOW DO YOU CURRENTLY USE DIFFERENT TAXONOMIES (BOTH JURISDICTIONAL AND INTERNAL/MARKET-LED) TO INFORM DECISION MAKING?

See response to Q2.

QUESTION 6: IN WHICH AREAS OF THE DESIGN OF A UK TAXONOMY WOULD INTEROPERABILITY WITH THESE EXISTING TAXONOMIES BE MOST HELPFUL? THESE COULD INCLUDE FORMAT, STRUCTURE AND NAMING, OR THRESHOLDS AND METRICS.

Critically many UK-based multinational firms are already subject to the EU Taxonomy, and divergence could lead to increased compliance costs and complexity. Ensuring interoperability would reduce reporting burdens.

More widely, the SBFN Toolkit, based on the review of 12 national and three regional taxonomies, identified six 'components' of interoperability, namely:

(i) Core Principles and essential criteria – easier implementation for entities operating in different jurisdictions
(ii) Shared environmental and social objectives – proper functioning of DNSH
(iii) Common categories and activities – common core
(iv) Common approaches to disclosure and assurance – easier for entities and services providers operating in different jurisdictions
(v) Compatible TSC – encourage high ambition and
(vi) Industry codes – efficient comparison and tracking of activities.

Emerging experience shows interoperability is particularly challenging on DNSH and MS, because they are least clearly defined among other components of taxonomies[5]. See response to Question 12 below for more detail.

The Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean (LAC), developed by LAC Taxonomies Working Group, presents an interesting example to enhance interoperability as it goes beyond

5 https://finance.ec.europa.eu/system/files/2024-01/240129-sf-platform-report-market-practices-compendium-report_en.pdf

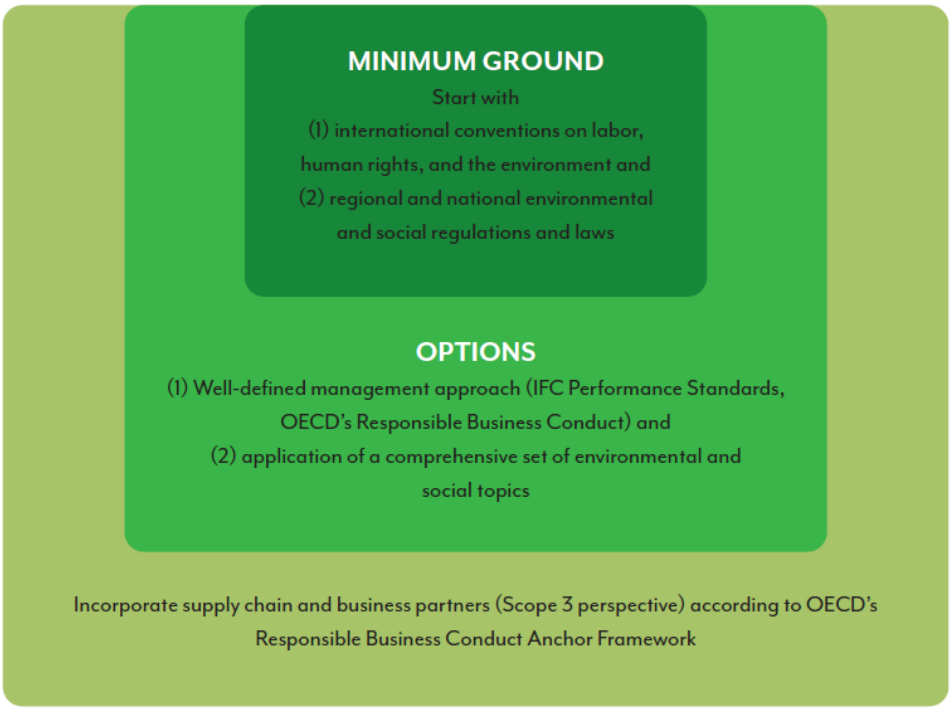
simple disclosure requirements and seeks to establish the comparability of disclosed data. It established, as a model framework to support countries in developing their own taxonomies in line with national priorities

(i) A set of guiding principles
(ii) Two initial objectives: climate mitigation and adaptation
(iii) screening criteria for a core set of activities, and
(iv) guidance on DNSH and MS.

An English translation of the Executive Summary is available[6].

The diagram from the G-20's alignment report below[7] illustrates the tiered approach to interoperability, which the UK taxonomy could adopt as a conceptual framework for DNSH and MS, as well as for addressing greenwashing risks. This approach could include clarifying non-mandatory Tier 2 standards that economic entities aiming to establish higher ESG credentials can utilize such as compliance with IFCs E&S Performance Standards.

Figure 6: Method to assess the "do no significant harm" principle in alignment approaches



[6] https://www.unepfi.org/wordpress/wp-content/uploads/2023/07/Common-Framework-of-Sustainable-Finance-Taxonomies-LAC_-ENG-Executive-Summary.pdf
[7] https://www.imf.org/external/np/g20/091323.htm

iema.net
info@iema.net
+44(0)1522 540 069

QUESTION 7: ARE THERE ANY LESSONS LEARNED, OR BEST PRACTICE FROM THE OTHER JURISDICTIONAL TAXONOMIES THAT A POTENTIAL UK TAXONOMY COULD BE INFORMED BY?

The EU Taxonomy demonstrates that embedding double materiality is essential to fully capture sustainability risks and opportunities. The UK should ensure alignment with this approach to enhance global interoperability and prevent greenwashing. Furthermore, the EU's taxonomy emphasises the importance of clear, science-based definitions to avoid ambiguity. Feedback early on in that process identified vague criteria leading to inconsistent interpretations and the undermining of investor confidence. To combat this, develop and publish detailed technical screening criteria and performance thresholds that leave little room for interpretation. Set out clear parameters for green and transitional activities.

Early continuous engagement with a broad range of stakeholders helps to build consensus and can identify operational challenges early. Those involved should be industry experts, financial institutions, environmental groups and academics. Of course, IEMA will be happy to be involved.

Align the taxonomy with current and forthcoming reporting requirements, such as those based on the TCFD recommendations or other ESG disclosure frameworks. As other jurisdictions have learned, this can simplify the transition and avoid the creation of parallel reporting systems.

Data availability and quality have been recurring problems. Prioritise investment in data infrastructure that supports accurate, timely, and transparent reporting of environmental performance. Consider establishing standards for third-party verification to ensure that claims of compliance are independently validated.

Use a phased approach that starts with achievable targets and gradually tightens criteria as industries and markets adjust. A balance must be struck at the start between ambition and market practicality, without losing sight of net zero policy goals.

QUESTION 8: WHAT IS THE PREFERRED SCOPE OF A UK TAXONOMY IN TERMS OF SECTORS?

The UK's approach must be tailored to its unique economic structure and climate targets. Sectors where there is private investment, regulatory levers and technological innovation can drive significant emissions reductions. The design should also recognize the interdependence between sectors, for example, how investments in renewable energy impact the manufacturing of EVs, or how building retrofits can drive demand for advanced materials. A cross-sectoral approach can help ensure the taxonomy remains both holistic and flexible.

There are sectors which cut across all of the others, such as financial services and technology, which will be important to involve from the start.

Other appropriate sectors include:

1. Energy and power generation
2. Transport
3. Construction and buildings
4. Industry manufacturing
5. Agriculture, forestry and land-use
6. Waste management and water

iema.net
info@iema.net
+44(0)1522 540 069

QUESTION 9: WHAT ENVIRONMENTAL OBJECTIVES SHOULD A UK TAXONOMY FOCUS ON (EXAMPLES LISTED IN PARAGRAPH 3.3)? HOW SHOULD THESE BE PRIORITISED?

While the priority should be on those issues which have a global impact and a global priority such as carbon reduction, climate adaptation, and biodiversity, there are other environmental priorities which can positively contribute to these themes which are, in our view, given insufficient priority and require stimulus. These areas are:

1. Circular economy
2. Clean water and water conservation, and
3. Pollution prevention.

A UK system needs to recognise the inter connectivity of different environmental themes and how together they can mutually support environmental performance aims. Undertaking this approach can quite often lead to cost efficiencies where then is a collective approach to more than one environmental theme. Of course there needs to be a balance which reflects not over stretching financial resources into too many environmental categories, but not having too few, which indirectly stimulates focus in too few areas and indirectly might undermine the importance of other environmental objectives; and also may send inappropriate signals about environmental priorities to businesses, the market and regulators.

We do believe there needs to be some consideration of social safeguards to prevent human rights abuses. We recognise there are safeguards in the UK, however, financial markets—more than most sectors—are inherently international in their reach and operation, and we would advise minimum standards are set in this area. Guidance from the IFC, Equator Principles can be used to inform these.

QUESTION 10: WHEN DEVELOPING THESE OBJECTIVES, WHAT ARE THE KEY METRICS WHICH COULD BE USED FOR COMPANIES TO DEMONSTRATE ALIGNMENT WITH A UK TAXONOMY?

1. Carbon Reduction

- Absolute Greenhouse Gas (GHG) Emissions:
- Total scope 1, scope 2, and, where feasible, scope 3 emissions measured in CO_2 equivalent
- Emissions Intensity: GHG emissions per unit of production, revenue, or energy output (e.g., kg CO_2e per megawatt-hour produced, per tonne of product, or per £ revenue).
- Year-on-Year Reduction Percentage:
- Annual percentage decrease in overall GHG emissions compared to a baseline year.
- Carbon Footprint of Supply Chain: Measurements that account for upstream and downstream emissions, incentivising the decarbonisation of entire value chains.
- Renewable Energy Share: The proportion of total energy consumption met by renewable sources.
- Energy Efficiency Improvements: Metrics such as energy intensity (energy use per unit of output) and progress against energy efficiency targets.

2. Climate Adaptation

- Climate Risk Assessments and Resilience Scores: Standardised assessments that rate a company's vulnerability to climate risks (e.g., exposure to extreme weather events, flooding, drought) and the robustness of adaptation measures.

iema.net
info@iema.net
+44(0)1522 540 069

- Investment in Adaptation Measures: Capital expenditure dedicated to climate adaptation projects (e.g., flood defences, water resource management systems) expressed as a percentage of total capex.
- Business Continuity and Resilience Plans: Existence and scope of documented plans that are regularly updated and tested through stress scenarios.
- Infrastructure Resilience Metrics: Metrics related to the retrofitting of existing facilities or the design of new facilities that incorporate climate resilience features (e.g., building standards compliance, resilience certifications).

3. Biodiversity

- Land Use and Habitat Impact: percentage of operational land area certified as high-biodiversity or designated for conservation, restoration, or sustainable management.
- Biodiversity Offsetting and Restoration Initiatives: quantifiable targets (e.g., hectares restored or protected) and measurable outcomes from biodiversity projects.
- Biodiversity Footprint/Impact Assessments: regular reporting on biodiversity impacts (using standardized tools or indices) to assess risks and improvements.
- Ecosystem Services Preservation: metrics related to the preservation or enhancement of ecosystem services (e.g., pollination, water purification) that are directly linked to business activities.

4. Circular Economy

- Material Circularity Indicators: ratios measuring the reuse, recycling, or remanufacturing of materials versus total material consumption (e.g., percentage of recycled content in products).
- Waste Diversion Rates: percentage of waste diverted from landfill through recycling, composting, or other forms of recovery.
- Resource Efficiency: metrics such as resource use per unit of output, material productivity improvements, or reductions in resource intensity.
- Measures related to product design for recyclability, durability, and repairability, including take-back and recycling program participation rates.
- Circular Business Model Adoption: indicators such as revenue generated from circular products or services relative to total revenue.

5. Clean Water and Water Conservation

- Total water withdrawal and water consumption per unit of production or per £ revenue, with targets for reduction.
- Improvements in water use efficiency, often benchmarked against industry standards.
- Evaluations of water-related risks in operational regions, potentially including water risk ratings or vulnerability indices.
- Metrics on the quality of water discharged (e.g., reductions in contaminants, adherence to local or international water quality standards).
- Capital expenditures on water recycling, reuse technologies, or infrastructure improvements, measured as a percentage of total investment.

6. Pollution Prevention

- Quantitative measures of air pollutants (e.g., NO_x, SO_x, particulate matter) per unit of production, with targets for reductions.
- Quantities of pollutants released in water and solid waste, with benchmarks for treatment and reduction.
- Percentage of operations meeting or exceeding local and international pollution control standards.
- Metrics on the safe handling, reduction, or elimination of hazardous substances in production processes.
- Frequency and severity of pollution-related incidents, alongside improvement targets and corrective actions implemented.

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? 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)

For the taxonomy to be robust and actionable there needs to be transparency and standardisation. Companies should use standardised methods and reporting frameworks (e.g., those aligned with GHG Protocol, ISO standards, or internationally recognised water and waste management protocols) to ensure consistency and comparability.

Independent third-party verification of reported metrics can enhance credibility and reduce the risk of greenwashing.

Metrics should be designed to evolve over time. Baseline assessments and progressive improvement targets can account for technological advances and stricter future standards.

While some metrics apply broadly, sector-specific benchmarks can provide more nuanced insights, reflecting the diverse operational realities across industries.

QUESTION 12: WHAT ARE RESPONDENTS' VIEWS ON HOW TO INCORPORATE A DO NO SIGNIFICANT HARM PRINCIPLE, AND HOW THIS COULD WORK?

We agree with the EU approach here. DNSH is needed and it is a risk if it is not in place to help direct the Taxonomy and provide minimum requirements related to environmental standards. A strong DNSH principle, rooted in double materiality, will ensure that the UK Taxonomy accounts for both financial and environmental-social risks, preventing investments that cause unintended environmental degradation or social harm.

As is provided in 'A Compendium of Market Practices: How the EU's Taxonomy and sustainable finance framework are helping financial and non-financial actors transition to net zero'[8], the usability of the DNSH and MS overall need to be enhanced with practical guidance. Separate guidance material can be developed to clearly define DNSH and MS criteria, and how gaps can be filled including at the entity level.

Recent taxonomies issued by some jurisdictions such as Bangladeshi and Georgian central banks are accompanied by the environmental and social management system (ESMS), consistent with the IFC's

[8] https://finance.ec.europa.eu/system/files/2024-01/240129-sf-platform-report-market-practices-compendium-report_en.pdf

Performance Standards (PS) and Environmental Health and Safety (EHS) Guidelines. Such guidelines, developed based on internationally accepted standards, provide granular and technical guidance on when DNSH and MS criteria can be met and when not, and what need to be done if material risks and impacts cannot immediately be mitigated, for example because such risks or impacts are outside the UK's existing regulatory frameworks or occur on supply chains outside the UK territories, in particular, EMDCs. Guidance on strengthening corporate risk management systems over time, while acknowledging the limitations of leverage and the scope of existing national regulations, is essential to ensure that economic entities address systemic gaps in their transition pathways and better respond to greenwashing criticisms.

Importantly, such guidance materials can support a tiered approach to managing environmental and social risks. The 'basic' tier would outline mandatory requirements that establish a foundational standard, while the 'advanced' tier would offer non-mandatory international best practices to help minimise greenwashing risks. IFC's recent study that compares its PS and EU Taxonomy[9] found significant interoperability between the two, highlighting the potential of the PS to provide the necessary granularity in applying DNSH and MS criteria.

QUESTION 13: IS IT LIKELY A UK TAXONOMY WOULD NEED REGULAR UPDATES, POTENTIALLY AS OFTEN AS EVERY THREE YEARS?

See below.

QUESTION 13(A): DO YOU AGREE WITH THIS REGULARITY?

Updating taxonomies every three years may be too frequent. In Indonesia, the latest sustainable taxonomy, issued two years after the original green taxonomy, caused significant confusion among market players, many of whom were still familiarising themselves with the original version. The updated sustainable taxonomy specifies that the original Green Taxonomy remains applicable in sectors not covered by the new version. Managing such changes presents a significant challenge. Five years is a more appropriate timeframe for major review and update of the Taxonomy. We agree the taxonomy will require updating over time as a result of findings from monitoring, changes in government priorities and policy and new scientific findings. This includes improved understanding of the environment as well as the interaction of society and business with society. If the taxonomy is changed as frequently as every three years, we believe this will lead to unwanted bureaucracy and administration for the finance sector and potentially lead to higher administrative fees and costs. It could also undermine confidence in the taxonomy and may deter some funds investing ESG labelled funds. These issues would also apply to Transition planning.

One way to address this is by developing parallel technical guidelines that can be periodically updated in response to technological and regulatory advances, while the taxonomy itself provides core principles that do not require frequent revisions. Perhaps to balance stability and adaptability, the UK Taxonomy could adopt a tiered update approach—major revisions every five years, with targeted refinements every three years to address emerging technologies and sectoral transitions.

[9] https://www.ifc.org/en/insights-reports/2023/publications-ifceutaxonomy

QUESTION 13(B): WOULD THIS POSE ANY PRACTICAL CHALLENGES TO USERS OF A UK TAXONOMY?

See above.

QUESTION 13(C): WOULD THIS TIMEFRAME BE APPROPRIATE FOR TRANSITION PLANS?

See above. The issues identified in the response to Question 13(A) would also apply to transition planning.

QUESTION 14: WHAT GOVERNANCE AND OVERSIGHT ARRANGEMENTS SHOULD BE PUT IN PLACE FOR ONGOING MAINTENANCE AND UPDATES TO ACCOMPANY A UK TAXONOMY?

Government and regulators such as the FCA have a number of roles in this. Firstly, in the development of interpretive guidance to support the implementation and use of the taxonomy, as well as providing adequate resource to monitor and support the implementation process. Secondly, as part of a system for monitoring and identifying potential barriers to its application or misuse and, lastly, to work with stakeholders to facilitate the identification of solutions to remove barriers and remove or mitigate risks.

To be credible, we believe the system needs to be monitored and backed by a regulator with the powers to monitor the application of the taxonomy. It requires a regulator who is independent who can look to monitor application with other related regulation. Regulators may take views from industry and business and NGOs on an annual basis especially in the first two to three years of implementation. We also believe the regulator should report annually to central Government on its activities and findings including feedback from stakeholders.

MORE INFORMATION

For more information on this consultation response please contact:

Dr Rufus Howard, FIEMA, CEnv

Policy and Engagement Lead – Sustainable Finance, IEMA

sf@iema.net