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The UK Green Taxonomy Consultation team,
HM Treasury
1 Horse Guards Road
London SW1A 2HQ
Submitted by e-mail to: taxonomyconsultation@hmtreasury.gov.uk

Dear HMT team,

CFA UK and CFA Institute's letter in response to the consultation on a UK Green Taxonomy

The CFA Society of the UK (CFA UK) and CFA Institute (CFAI) welcome the consultation on the case for a taxonomy to complement the UK's sustainable finance framework. CFA UK's purpose is to grow talent, and many of our members work in various roles within sustainable finance, providing a practitioner's perspective on the components of the sustainable finance framework in the UK. Our response to the questions posed is attached at Appendix II, with our over-arching views recapped below.

We advocate sound principles-based frameworks that provide clarity and standards to users, and material information to investors to make informed decisions. A UK taxonomy would provide a ***common set of definitions and classification to align and link the various elements of sustainable policy and regulation so all stakeholders speak the same language***. Given the progress on the UK's sustainability framework and the ambition to be a global leader, the absence of a taxonomy could hamper effective implementation and oversight of sustainability policies and regulations.

However, this is subject to the following conditions:

- ***The taxonomy must be kept as simple as possible***, essentially serving as a dictionary of key sectoral and green definitions that removes ambiguity. We do not support complex or unnecessary regulation that is not user friendly or risks confusion and differing interpretations. The EU experience indicates that more complexity and technicality leads to less application and benefit.

- ***The taxonomy should be additional and not duplicative*** of other existing elements of the sustainability framework. We recommend the taxonomy is introduced as a tool to support the implementation of existing policies and regulations, and not as new regulation or reporting requirement, given a degree of sustainability compliance fatigue in the industry. Existing frameworks for various purposes do not need to be restated such as for transition planning, investment product labelling and green financing.

- ***The taxonomy should not reinvent the wheel on widely adopted definitions and criteria***, and have a high degree of interoperability, in particular to align where possible with the EU and other taxonomies. We advocate building on the work done by others, focussing on addressing deficiencies and gaps, some of which are highlighted in our responses. The UK has an opportunity to learn from and avoid some of the adverse practitioner feedback faced by the EU taxonomy recently, such as parallel development alongside other regulations, causing some confusion and duplication.

- ***Enhancing the focus on transition plans and pathways for more sectors***, alongside or prior to development of the taxonomy. Focusing only on key high emission sectors may risk other sectors being left behind, and therefore there should be a balanced approach in place. By incorporating transition, the taxonomy can account for the dynamics of different speeds of transition from brown to green and the immediate need to tackle physical risks through adaptation. If this were to cause some delay in the taxonomy, a clear timeline and plan should be provided for stakeholder clarity.

- ***Being aware of and mitigating the risk of unintended consequences*** if the taxonomy was disconnected from other regulations and imposed mandatorily in a short time horizon. There may be a risk of disruptive capital reallocation if access to finance for some firms or projects is curtailed as a result of new, materially different, or very rigid definitions. We suggest a degree of flexibility in the criteria, a period of voluntary adoption, and grandfathering provisions to minimise such risks and related costs.

We hope our comments are useful and would be grateful for the opportunity to discuss our feedback, and happy to conduct any research or analysis that would help with the review.

Yours sincerely,

CFA Society of the United Kingdom

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With thanks for their contributions to our volunteers: *Jacopo Gadani CFA, Maria Lombardo CFA, Lenny Kessler CFA, and the oversight of CFA UK's Ethics & Professionalism Steering Committee.*

APPENDIX I
About CFA UK and CFA Institute

CFA UK serves nearly 12,000 members of the UK investment profession. Many of our members analyse securities, manage investment portfolios, advise on investments, or are in roles responsible for investment operations or oversight.

Our role is to help investment professionals build and maintain their skills and competencies so that they are technically and ethically competent to meet their obligations to clients. We advocate for high standards of ethical and professional behaviour and our work with regulators, policymakers and standard setters is focused on skills, knowledge, and behaviour.

We are not a lobby group or a trade body. We are an independent, professional association whose mission is to 'educate, connect and inspire the investment community to build a sustainable future.'

Founded in 1955, CFA UK is one of the largest member societies of CFA Institute. Most of our members have earned the Chartered Financial Analyst® (CFA®) designation. All our members are required to attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

For more information, visit www.cfauk.org or follow us on Twitter @cfauk and on LinkedIn.com/company/cfa-uk/

CFA Institute is the global association for investment professionals that sets the standard for professional excellence and credentials. The institute is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Its aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.

It awards the Chartered Financial Analyst® (CFA) and Certificate in Investment Performance Measurement® (CIPM) designations worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.

CFA Institute has members in 162 markets, of which more than 170,000 hold the Chartered Financial Analyst® (CFA) designation. CFA Institute has nine offices worldwide and there are 158 local member societies.

For more information, visit www.cfainstitute.org.

APPENDIX II

Box 2.A Questions for respondents

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?

Given the ambition for the UK to be a global leader in sustainable finance, the UK has an opportunity to complete a comprehensive policy, regulatory and reporting framework for sustainable finance by establishing a UK taxonomy.

The main benefit of a taxonomy will be in providing a standard classification system that aligns, supports, and links the various elements. ***Each existing policy and regulation has a contribution to make, but lacks the common language or standards that a taxonomy can provide.*** A taxonomy will make each component more effective and consistent, thereby supporting capital allocation, assessment, and reporting, without itself being an additional regulation or policy.

As one example, the anti-greenwashing rule would be more effective and ensure easier compliance with a taxonomy at hand. Sustainability claims that firms may make about their products and services should be grounded in common definitions and evidence, and be easily understood by customers to avoid being misleading. In the absence of a taxonomy, much of this judgement is left to the discretion of the firm, for example what constitutes fossil fuel free, good labour practices, aligned with transition to net zero, not harmful to the environment etc. While the FCA has assisted firms by providing examples of good and bad greenwashing practice, a taxonomy will assist firms in describing their activities and products/services with more certainty and reliability.

a. Are there other existing or alternative government policies which would better meet these objectives or the needs of stakeholders?

A complete set of government policies could conceivably meet the same objective as a taxonomy, but would be a less robust and user friendly approach. As an example, in the area of Transition Finance, there is a need for standardized terminology regarding what qualifies as a transition activity or project. This clarity could potentially be provided by the Transition Finance Council rather than via a taxonomy.

But the risk is that this component of a taxonomy would operate in a silo, unconnected to other forms of sustainable finance tools, and therefore we ***recommend a "in one place" taxonomy to better support firms and the Government to meet sustainability goals***.

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)?

A taxonomy operating at the level of economic activity is complementary to the reporting under ISSB/IFRS and transition plans under the TPT/IFRS disclosure framework. It would enable reporters and assessors to use a common set of definitions and metrics.

The UK has an advantage in being able to align its taxonomy to other elements of the reporting and policy framework. ***The experience of the EU, which involved parallel and to some extent independent development of a taxonomy alongside other policies, can be avoided by the UK.*** The outcome in the EU was in cases complex, often similar but not identical definitions in parts of the framework, and in cases tight / prescriptive definitions.

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.
a. What are respondents' views on the benefits of the proposed use case (paragraph 2.2)?
b. Are there any other use cases respondents have identified?
c. How does each use case identified link to the stated goals?

The over-arching use case for a UK taxonomy should be to support climate adaptation, mitigation, and resilience. ***We support the use cases identified by the GTAG / Green Finance Institute*** (link below) , also referenced in your para 2.2 as a useful source of recommendations.

- https://www.greenfinanceinstitute.com/wp-content/uploads/2024/12/LNAS-Framework-to-develop-a-UK-Green-Taxonomy-for-adaptation-and-resilience.pdf

Transition Finance presents a particularly important use case for a taxonomy. The EU taxonomy, as an example, was developed before much progress had been made on a transition finance framework, and is therefore perceived as currently being of limited use in progressing transition finance. The UK has a leading position in transition finance, and an opportunity to further cement its global position by providing a simple and effective framework for transition finance.

We refer to a March 2024 report from CFAI (link below) which flags there is no global consensus on transition taxonomies:
"In countries/regions with no transition taxonomy, there is no clear definition or scope of transitional and enabling activities, which may lead to underinvestment in promising technologies and greenwashing…".

- Navigating Transition Finance: An Action List

The recent climate transition framework released by Japan is a valid and useful example.

- https://www.mof.go.jp/english/policy/jgbs/topics/JapanClimateTransitionBonds/climate_transition_bond_framework_eng.pdf

In the UK there is an eco-system with specific financial institutions (insurance, multilateral players in particular) that the UK taxonomy could leverage for more innovative finance beyond transition and more specifically focused on more imminent climate risks.

We also believe there is a ***case for a social taxonomy***, an element that has not been sufficiently covered under the EU taxonomy for example. This will support wider sustainability claims and reporting, inform stewardship activities, and allow for disclosure and assessment of the impact of economic activities beyond their environmental impact. The UK already has a sound set of policies and regulations in place in areas such as human rights, labour protection, and diversity, but a social taxonomy will be able to go beyond the letter of the law and support change by clarifying what addressing key social issues and gaps looks like. The UK social taxonomy can also draw from additional sources such as UNPRI goals and the Global Compact in framing a social taxonomy. The recent taxonomy of Brazil (link below) appears to be a good example of expanding on the social aspects.

- https://www.gov.br/fazenda/pt-br/orgaos/spe/sustainable-taxonomy-of-brazil

Providing ***clarity on DNSH activities*** as part of the taxonomy, will support anti-greenwashing, transition and activity planning by firms, and assessment by capital and debt allocators. The definitions covering DSNH in the EU taxonomy are considered somewhat open to interpretation, and the UK can significantly improve this aspect of the taxonomy when developing its own.

Biodiversity is another area where a use case exists to support disclosure, impact assessment by firms and reviewers, allocation of capital, and monitoring of significant harm.

Transition pathways can also benefit from a taxonomy that provides clarity by economic activity, and supports the TPT/IFRS framework. A good taxonomy can facilitate transition of a wider portion of the economy in a meaningful way, without being too rigid or perfect.

Reporting under ISSB/IFRS standards would be supported by a taxonomy that underpins disclosure based on clear activity definitions. We noted in a recent response (link below) to the IFRS on climate disclosure illustrations, the benefit of examples, which indicates the need for more clarity that a taxonomy can provide:
"…help in embedding reporting discipline and practice when strict IFRS compliance may be insufficient to convey material information on risks and uncertainties to investors".

- cfa-uk--cfais-letter-in-response-to-iasbs-consultation-on-climate-related-and-other-uncertainties-di.pdf

A UK taxonomy should define ***transition activities, and transition pathways*** by economic activity within a UK context. The CFAI report states:
"Different countries/regions use different approaches to develop their taxonomies, which may define only green activities but not transitioning activities/entities at this stage. Given the spatial and temporal variations of transition pathways of different countries/regions, the divergences of approaches, criteria, and levels of granularity used to screen and thus label eligible activities/entities are wide…"

On the other hand, there is limited additional benefit as a tool for supporting traditional sustainable finance products (e.g. green bonds, sustainable bonds, social bonds) given the existing global frameworks that have already been adopted for such financing (including by the UK government as well (link below). We ***recommend adopting existing standards*** and examples of sustainable finance frameworks and impact reports for such products into the taxonomy to align globally and minimise disruption.

- https://assets.publishing.service.gov.uk/media/60f008d78fa8f50c7f08ae6e/20210630_UK_Government_Green_Financing_Framework.pdf

d. Under these or other use cases, which types of organisations could benefit from a UK Taxonomy?

Key players in the financial sector would benefit from a taxonomy, including:

- ***Capital market players*** and intermediaries to guide the assessment of investments and financing requests
- ***Asset and wealth managers*** to support asset allocation decisions, disclosure and adherence to product labelling and descriptions, and stewardship
- ***Rating agencies*** for rating decisions to enhance consistency and comparability

The public sector would also benefit for policy formulation, prioritisation, and progress monitoring. This would be in line with what the UK government is already doing with its impact reports on the Green Financing Framework (link below).

- https://www.gov.uk/government/publications/uk-government-green-financing

e. For each use case identified, do respondents have any concerns or views on the practical challenges?

There is a risk of unintended consequences, if the taxonomy were disconnected from other regulations and imposed mandatorily in a short time, for example disruptive capital reallocation if access to finance for some firms or projects is curtailed as a result of new, materially different, or very rigid definitions.

Sustainable activities, reporting, labels, and plans have already been progressed by firms and investors within the UK for the past few years. The introduction of ***a taxonomy that significantly changes existing practices could imply added cost*** for the industry, disruption to plans, and potential inadvertent breach of regulations such as anti-greenwashing. We refer to a recent new item referring to this risk in the EU below:

- EIB fears ‘reputational disaster’ over revised EU green reporting

Recommended mitigating actions are:

- Allowing for ***sufficient time for adoption*** and modification of approaches
- ***Embedding a degree of flexibility*** in the taxonomy, such as “shades of green” rather than hard lines that the majority of firms may immediately miss by a small margin
- ***Grandfathering provisions*** that allow for continuation of existing products and activities for a period of time after new provisions are introduced

There is a degree of sustainability regulation tracking and compliance fatigue amongst practitioners, and mixed experiences of many with the EU taxonomy, making it essential that the taxonomy is a simple and useful supporting tool, and ***not an additional reporting or compliance requirement.***

Finally, we recommend that the taxonomy is ***introduced on a voluntary basis for an initial period of 2-3 years*** and an assessment made after that whether mandatory imposition will further benefit the sustainability framework.

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)?

We ***recommend leveraging what the government departments are already doing on various fronts*** (e.g. Interdepartmental Green Bond Board with respect to the process of selecting projects suitable for green bond financing), while connecting the dots via the taxonomy.

We also recommend that the Bank of England has a prominent role in supporting the taxonomy, particularly in light of the varied support for climate change initiatives globally by banks and central banks.

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.

The UK has a leading position in transition finance, and an opportunity to provide a simple and effective framework for transition finance. We refer to the March 2024 CFAI report: *"In countries/regions with no transition taxonomy, there is no clear definition or scope of transitional and enabling activities, which may lead to underinvestment in promising technologies and greenwashing".*

While noting the different approaches used in the table below, ***incorporating transition finance definitions and criteria /thresholds via a UK taxonomy*** feels appropriate.

Exhibit 1. Examples of Taxonomies and a Roadmap for Transition Finance in Different Countries/Regions

	Transition Taxonomies		Roadmap
Countries or regions	EU, UK (pending), Canada (pending), South Africa, Association of Southeast Asian Nations (ASEAN), Indonesia, Thailand, Singapore, China (national taxonomy pending, governments of Huzhou and Chongqing published local taxonomies)	Malaysia	Japan
Screening methodologies	Activities by technical screening criteria or thresholds	Activities and entities by principles	Assets and entities by sectoral technology roadmaps (with technologies, emission thresholds, and timeline)
Eligibility	List of transitional and enabling activities by EU; catalogs of eligible activities by Huzhou and Chongqing; list of "Amber" activities under a traffic light system adopted by ASEAN, Indonesia, Thailand, and Singapore	Tier 2 and 3 activities in the "Transitioning" class under a three-class, five-tier system	Nine high-emitting sectors

4. How could the success of a UK Taxonomy be evaluated? What measurable key performance indicators could show that a UK Taxonomy is achieving its goals?

The success of each component of a sustainability framework is hard to measure by precise KPI's that seek to trace a direct cause-impact relationship. Rather ***the impact of the overall framework can be assessed against key objectives*** such as net zero timelines, emissions reduction, and carbon budgets.

With regard to a taxonomy, the practical approach therefore would be to ***use "proxies" and indicators to measure success.*** Examples of indicators could be:

- How many investments or financial instruments are issued using the definitions and criteria of the taxonomy, after its introduction
- How many investments or instruments are recorded in specific sectors such as for social activities or with specific bio/nature objectives, where there is less overlap with existing green activities
- Progress evidenced in the coverage and quality of transition plans of UK firms
- Monitoring of how many green jobs are supported in a just transition way (given the UK Green Financing Framework on Considering the Social Co-Benefits of Green Investments)

With regard to the latter, the UK Green Financing Framework on Considering the Social Co-Benefits of Green Investment states:
"New offshore wind, hydrogen and CCS industries may help support new jobs while also pushing forward the UK government's levelling up agenda to invest in regional economies. It is estimated that these projects could support up to 60,000 jobs for offshore wind and up to 8,000 jobs for hydrogen projects in 2030."

Box 3.A Questions for respondents

5. There are already several sustainable taxonomies in operation in other jurisdictions that UK based companies may interact with. How do respondents currently use different taxonomies (both jurisdictional and internal/market-led) to inform decision making?

This mainly depends on the location of the project/asset/activities and relevant applicable regulations as well as local market and technical standards. Not all activities and criteria can be applicable to all geographies. For instance, the Green Asset Ratio within the EU taxonomy is still not that widely adopted, given the challenges and reported values so far by the financial sector (even within the EU).

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.

The taxonomy should not reinvent the wheel on widely adopted definitions and criteria, in particular to align where possible with the EU and other taxonomies. We advocate building on the work done by others, focussing on addressing deficiencies and gaps. The UK has an opportunity to learn from and avoid some of the adverse practitioner feedback faced by the EU taxonomy recently, such as parallel development alongside other regulations, causing some confusion and duplication.

We ***accordingly recommend a high degree of interoperability***, to align with the progress made by many UK based firms in aligning with the EU taxonomy (and CSRD), and given the stated ambition of the UK being a global leader in sustainable finance. The CFAI March 2024 report states:
In countries/regions with a taxonomy, the lack of interoperability in the "jungle of taxonomies" could be a barrier to international capital flows (Ehlers, Gao, and Packer 2021).

The most important aspect of interoperability will be in the ***definitions used, including key emission metrics***. The most well established taxonomy is that of the EU, and this can help form a useful baseline for the UK, while at the same time seeking to improve on areas of weakness in the EU taxonomy. We recommend that the UK recognise those EU definitions that are well established and globally recognised, for further build.

This includes within the UK interoperability with existing naming and metrics already existing in other elements of the sustainable finance framework. For example, the SDR regulation establishes naming conventions, which a taxonomy can help underpin with clear definitions, while still using the existing terminology that users have been embedding into their systems and processes.

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

Please refer to Answer 11 below.

Box 3.B Questions for respondents

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

The priority should the sectors typified by higher emissions and where the UK has a valid/credible pathway and strategy (e.g., UK's Net Zero and Carbon Budget targets, the Environment Improvement Plan and National Adaptation Programme).

However, prioritising key emission heavy sectors should be balanced against the risk of other sectors being left behind. ***By incorporating transition plans and pathways for more sectors, the taxonomy can account for the dynamics of different speeds of transition*** from brown to green and the immediate need to tackle physical risks through adaptation. If this were to cause some delay or in the taxonomy, a clear timeline and plan should be provided for stakeholder clarity.

9. What environmental objectives should a UK taxonomy focus on (examples listed in paragraph 3.3)? How should these be prioritised?

The key objective should be ***climate adaptation and climate mitigation / resilience***, noting that definitions and benchmarks are easier to define and measure in these areas. Doing so would also show a pragmatic approach, likely welcomed by market participants, in line with our concepts of simple and effective as outlined below. Furthermore, In the UK there is an eco-system with specific financial institutions (insurance, multilateral players in particular) that the UK taxonomy could leverage for innovative finance focused on these aspects.

Other objectives such as biodiversity and ecosystems, circular economy, pollution prevention and control, and sustainable use and protection of water and marine resources are being discussed at a global level (including the EU) and it would be advisable for the UK to decide later on these once a degree of consensus has formed on definitions and criteria.

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

Metrics should be based on ***quantifiable criteria and standards that are established (or can be added) in the UK market and can be verified on a reasonable assurance basis***.

One example would be Solar PVs. As this is a mature technology already in place, rather than consider everything "green" it would be good to only consider specific advanced technologies or local supply chain factors. Also, these metrics should consider the social angle, in line with the section "Considering the Social Co-Benefits of Green Investment " of the UK Green Financing Framework.

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)

The taxonomy must be kept as simple as possible, essentially serving as a dictionary of key sectoral and green definitions that removes ambiguity. We do not support complex or unnecessary regulation that is not user friendly or risks confusion and differing interpretations. The EU experience indicates that more complexity and technicality leads to less application and benefit.

We recommend the following key design features for a UK taxonomy:
- ***Simple to use and understand*** across the user spectrum, making the UK taxonomy stand out as a preferred approach
- ***Effective in meeting the objectives***, not being too complex or prescriptive to apply
- ***Additional, not duplicative*** of other elements of the framework
- ***Interoperability*** is a key consideration to support a global ambition. Where existing taxonomies such as the EU taxonomy already have useful and widely adopted definitions in place, we recommend not revisiting these.

A significant lesson for the UK taxonomy from the EU experience is to go beyond only principles and incorporate ***clear definitions***.

In terms of thresholds, the EU experience indicates that having binary and tight thresholds can be counter-productive. Rather a more reasonable approach that allows for ***"shades of***

green" would encompass a much larger portion of the economy and users, supporting greater traction towards the sustainability objectives.

We recommend the taxonomy is positioned as a tool to support the implementation of existing policies and regulations, and ***not as a new regulation or reporting requirement, given a degree of sustainability compliance fatigue in the industry***. Existing frameworks for various purposes do not need to be restated such as for transition planning, investment product labelling and green financing. For example, the EU taxonomy incorporates reporting requirements that the UK taxonomy should not include, given the progress on IFRS/ISSB reporting frameworks.

As previously mentioned, the aspects of ***DNSH and a Social Taxonomy*** should be clearly included in the design. Most current taxonomies, especially in the developed world, have not sufficiently developed social definitions, and in cases such as the EU are not effectively contributing to a common language on such aspects. The UK taxonomy has an opportunity to provide clarity in this area, and build on some recent examples of social taxonomies such as Malaysia and Mexico (links below).

- https://www.sc.com.my/api/documentms/download.ashx?id=a0ab5b0d-5d7d-4c66-8638caec92c209c1#:~:text=Sustainable%20and%20Responsible%20Investment%20Taxonomy,for%20the%20Malaysian&text=Meanwhile%2C%20the%20proposed%20social%20component,opportunities%20to%20enhance%20social%20standards.
- https://www.sbfnetwork.org/wpcontent/uploads/2023/03/1131_Mexico_Mexican_Sustainable_Taxonomy_March-2023.pdf

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

Incorporating DNSH is of particular importance in a taxonomy. ***The EU experience shows that this has been open to interpretation issues***, which the UK taxonomy can improve upon. The EU's review consultation (link below) states:
"There is a need to simplify the application of DNSH (Do No Significant Harm) criteria, particularly the compliance assessment."

- Call for feedback - Platform on Sustainable Finance

We also recommend a reasonable rather than hard rigid line approach in framing DNSH activities, with subsequent reviews potentially enhancing the definitions over time.

A recent report on EU taxonomy improvements by the Association for Financial Markets in Europe (AFME) and Oliver Wyman (link below) points out some issues with regard to current DNSH definitions and criteria:
- 85% of measures are not quantitative, leading to reliance on estimates and proxies.
- 75% of the DNSH criteria have similarities to other criteria, yet are expressed differently, leading to confusion… users lack a consistent structure to follow.
- Simplifying and clarifying the DNSH approach will help standardize sustainable finance definitions, thereby increasing market transparency and stimulating the flow of capital

- AFME_OW_DNSH Report.pdf

13. It is likely a UK Taxonomy would need regular updates, potentially as often as every three years.
a. Do you agree with this regularity?
b. Would this pose any practical challenges to users of a UK Taxonomy?
c. Would this timeframe be appropriate for transition plans?

We agree that the taxonomy will need regular updating to criteria, sectors, new technologies, and as transition progresses. However, to be globally recognised, the ***taxonomy also needs to be stable and consistent, with no room for frequent fiddling or tweaks***. It needs to provide firms with a predictable planning backdrop to base their plans and spending on, including transition plans.

We recommend a review that is no more frequent than 3 years, and potentially could be undertaken at longer intervals closer to 5 years. We note the EU taxonomy is proposing to add or update activity definitions, which is timed approximately 5 years after the EU taxonomy was introduced.

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

The Green Finance Institute appears to be a suitable nodal agency for this purpose.

However, the inputs and oversight for the ***review process should also be supported by private sector participation and a wider range of institutions*** that are stakeholders in the sustainable finance framework in the UK.