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By email: taxonomyconsultation@hmtreasury.gov.uk

To whom it may concern

UK Green Taxonomy Consultation

Deloitte LLP welcomes the opportunity to respond to HM Treasury's consultation on the UK Green Taxonomy (the consultation).

We strongly support a cohesive, streamlined package of measures to facilitate the transition to a sustainable UK economy. However, to achieve a coherent regulatory framework, there needs to be a clear understanding of whose need each legislation or requirement serves and how these elements interact. It is important to avoid introducing duplicative requirements which will place an additional cost burden on UK entities without a clear benefit. Accordingly, we believe it is crucial to establish a clearly defined objective and use case for the UK taxonomy, prior to any detailed consideration of its design, to ensure it serves a distinct purpose within the existing regulatory and reporting framework.

The consultation notes that the purpose of developing a taxonomy for sustainable activities is typically to facilitate an increase in sustainable investment, and/or to reduce greenwashing. However, we observe that in the UK substantial sustainability reporting requirements already exist, which are specifically designed to meet the many and varied needs of investors and reduce greenwashing. Further requirements are expected to be introduced in the near term, most notably the forthcoming UK Sustainability Reporting Standards (UK SRS), once endorsed for use. The government has also signalled its intention to develop specific requirements for developing and disclosing transition plans, which will further address the anti-greenwashing objective. Accordingly, we believe the primary objective of a UK taxonomy, if introduced, should be distinct from that of existing and forthcoming comprehensive transparency requirements in the UK regulatory and reporting framework.

In defining the use case, it is important to recognise that a taxonomy is inherently and simply a classification system. Rather than viewing it as a reporting framework or a tool which itself drives behaviour, we envisage its primary purpose to be that of providing a system for classifying economic activities across the whole UK economy. Information obtained from this classification system could provide government with insights into the degree of progress towards the whole-economy transition and inform the development of policies which are intended to support government objectives, including incentivising investment in green technologies.

Were the use case for a UK taxonomy established in line with our thinking above, we would make the following high-level recommendations for the subsequent design:

- **Targeted and clearly defined use case:** Focusing on informing government policy, not capital market transparency, which is already addressed through other mechanisms.
- **Simple:** Easy to understand and apply regardless of entity size.

- **Comprehensive scope:** Covering the whole economy.
- **Appropriately proportional:** Avoiding excessive detail; simple and straightforward to apply on a consistent basis.
- **Leverage existing financial data:** A cost-effective approach that maximises the use of existing financial statement information, such as that used for financial reporting, rather than introducing new metrics and increasing data collection burdens.
- **Focus on capital flows:** Capital directed towards green assets and R&D activities.
- **Building on, rather than overlapping with, existing disclosures:** Avoiding duplication and leveraging existing information.
- **Alternative reporting channel:** Using a government portal, or similar mechanism, instead of annual reports.

In summary, we believe a well-designed UK taxonomy could usefully complement the policy and regulatory tools to support the whole-economy transition. To be effective this additional policy tool would need to deliver clearly articulated benefits at a reasonable cost and achieve proportionate approach by prioritising simplicity, focusing on key metrics, and maintaining a clear line of sight to policy decisions.

The Appendix below sets out our responses to the questions asked in the consultation. We would welcome the opportunity to expand on any of our comments. Please do not hesitate to contact Linda Riedel on 020 7007 0227 or lriedel@deloitte.co.uk, Amanda Swaffield on 020 7303 5330 or aswaffield@deloitte.co.uk, or Anne Warner on 020 7007 5636 or annewarner@deloitte.co.uk.

Yours faithfully

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Appendix – Responses to questions by chapter

Chapter 2: Assessing taxonomy use cases
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?
   a) Are there other existing or alternative government policies which would better meet these objectives or the needs of stakeholders?
   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)?

As set out in our cover letter, it is first necessary to establish a clearly defined objective and use case for the UK taxonomy to ensure it serves a distinct purpose within the existing regulatory and reporting framework. It is important to avoid introducing duplicative or overlapping requirements which will place an additional cost burden on UK entities without a clear benefit.

We believe defining the UK taxonomy's purpose requires the government to consider three fundamental questions:
- What information is required that is not already available via other reporting mechanisms?
- Who needs this information?
- Why do they need this information?

The consultation notes the purpose of developing a taxonomy for sustainable activities is typically to facilitate an increase in sustainable investment, and/or to reduce greenwashing. However, we observe that in the UK substantial sustainability reporting requirements already exist which are specifically designed to meet the many and varied needs of investors and reduce greenwashing. Further requirements are expected to be introduced in the near term, most notably the forthcoming UK Sustainability Reporting Standards (UK SRS), once endorsed for use. The government has also signalled its intention to develop specific requirements for developing and disclosing transition plans, which will further address the anti-greenwashing objective.

These reporting requirements, together with existing obligations such as the strategic report, section 172(1) statement and the corporate governance statement, are designed to serve providers of capital and stakeholders and facilitate their informed decision making. In addition to this, prudential tools are in place to equip regulators with targeted information through regulatory submissions, directly linked to actions such as capital requirements or penalties. We believe these requirements better meet the goals referenced in the question than a UK taxonomy could.

Accordingly, we believe the primary objective of a UK taxonomy should be distinct from existing and forthcoming reporting requirements. We suggest the UK taxonomy's purpose could be threefold: to act as a system for classifying economic activity across the whole UK economy, to provide government with insight into the progress towards the whole-economy transition, and to inform the development of policies which are intended to support the government objectives. We discuss this view further in our response to question 2.

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?
   d) Under these or other use cases, which types of organisations could benefit from a UK Taxonomy?
   e) For each use case identified, do respondents have any concerns or views on the practical challenges?
   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)?

We believe the most compelling use case of those set out in paragraph 2.2 of the consultation is to use a UK taxonomy as part of the government's wider climate and environment strategy. We do not believe there are clear benefits to any of the other use cases proposed as these are already addressed by other mechanisms and requirements in the existing regulatory and reporting framework, as explained in our response to question 1.

In defining the use case, it is important to recognise a taxonomy is inherently and simply a classification system. Rather than viewing it as a reporting framework or a tool which provides transparency and accountability mechanism to drive business behaviour, we envisage its primary purpose to be that of providing a system for classifying economic activities across the whole UK economy. A taxonomy alone cannot achieve the stated goals set out in the consultation, but it can facilitate the development of government policies, including incentives and disincentives, to drive investment into sectors or geographical areas that are critical for the whole-economy transition.

We see the UK taxonomy's primary value, therefore, as providing a simple yet comprehensive classification system across the whole UK economy. By providing insights into the allocation of capital and investment in research and development, the UK taxonomy could enable government development of policies that incentivise investment into green technologies and facilitate the monitoring of their effectiveness through ongoing reporting. Were the use case for the UK taxonomy defined in line with this thinking the role of government, as the primary information user, in facilitating and overseeing implementation, application and information usefulness will be highly significant.

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. /

Please see our responses to questions 1 and 2.

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?

Under the use case we propose, the success of a UK taxonomy would be evaluated based on how useful the resulting information is for the government in measuring the effectiveness of its policies to mobilise sustainable investment and drive the whole-economy transition.

Chapter 3: Key design questions

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?

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.

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

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

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

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

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)

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

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?

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

Overall approach

We see it as crucial to establish a clearly defined objective and use case for a UK taxonomy prior to any detailed consideration of its design, to ensure it serves a distinct purpose within the existing policy and regulatory framework. Accordingly, at this stage we can only provide limited high-level thoughts as to the potential design of the UK taxonomy, which are based on the proposed use case above. Once the use case is established, we would be happy to discuss detailed design considerations further.

Experience and lessons learned from the implementation of the EU Green Taxonomy highlight the challenges of adopting a complex classification system without a clearly defined and understood use case, which includes a disproportionately high implementation and compliance burden without any perceived benefits. The UK taxonomy can avoid such pitfalls by answering the questions set out in our response to question 1, i.e.:

• Ensuring the taxonomy meets an information need which is not already addressed elsewhere.
• Clearly identifying the intended recipients of the information as the government.
• Setting out how the government will use that information to inform policy decisions.

To achieve the whole-economy approach that we believe will best inform government policy, the key considerations for the design of a UK taxonomy should be its scope and ease of application. A careful cost-benefit analysis will be crucial in developing a UK taxonomy that can function effectively across the whole economy; it will need to be simple and straightforward to implement and apply consistently, while providing the necessary information to inform government policy decisions. A single objective – such as

differentiating between "green" and "brown" activities by industry – could provide useful information for developing government policy while remaining simple for entities of all sizes to report against.

We therefore propose the following high-level design parameters:
- **Function:** Track the flow of investment (e.g., CapEx and R&D funding - see below) across the entire ecosystem, identifying "green" and "brown" allocations.
- **Scope:** All entities impacting the UK ecosystem, including for-profit entities of all sizes as well as not-for-profit entities and the public sector.
- **Target audience:** Government/policy maker.

In designing the UK taxonomy, the government should also consider the extent to which it aims to prevent the shifting of emissions-intensive activities to other countries with less stringent policies (often termed "carbon leakage"). While domestic policies can incentivise green investments within the UK, their intended positive impact on activities beyond national borders is limited. Recognising this limitation is crucial for developing realistic and effective policies.

Metrics

We would strongly suggest the selected metrics should be those which will provide insights into the direction of future economic activity and are essential for understanding how to incentivise green investment and spend, such as CapEx and R&D investment and expenditure (or other appropriate metrics which would provide similar information for not-for-profit entities or financial institutions). Financial reporting frameworks in the UK have established definitions of research expenditure and development expenditure, and capital expenditure is also generally understood and accepted as a concept in financial reporting, although not explicitly defined. Therefore, a simple classification system, based on established definitions and measured based on existing financial reporting frameworks, could be used to determine whether these investments are directed towards "green" or "brown" activities.

Although we suggest the use of existing concepts and definitions in financial reporting, because the use case we propose is focused on government information needs rather than those of investors, we recommend that reporting of metrics under the UK taxonomy should occur through an alternative mechanism, such as a government portal, rather than within the annual report. This approach would also allow capture of data from different participants in the UK economy irrespective of their financial reporting obligations.

Implementation

A phased implementation approach, focusing on initial reporting in priority areas for decarbonisation, or on hard-to-decarbonise sectors or geographical areas where information is not readily available, could provide the most relevant starting points for government to develop policy. Data on CapEx, for instance, could be instrumental in developing mechanisms which encourage investment in specific industry sectors or geographical regions.

We believe a period of voluntary reporting in advance of introduction of any mandatory requirements could provide an opportunity to assess the usefulness and effectiveness of the information obtained for the purpose of government policy and decision making and make adjustments as needed to enhance the system.

Summary

Based on our proposed use case, we believe a fit-for-purpose UK taxonomy should possess the following attributes:

- **Targeted and clearly defined use case:** Focusing on informing government policy, not capital market transparency, which is already addressed through other mechanisms.
- **Simple:** Easy to understand and apply regardless of entity size.
- **Comprehensive scope:** Covering the whole economy.
- **Appropriately proportional:** Avoiding excessive detail; simple and straightforward to apply on a consistent basis.
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In conclusion, we believe a well-designed UK taxonomy could usefully complement the policy and regulatory tools to support the whole-economy transition. To be effective this additional policy tool would need to deliver clearly articulated benefits at a reasonable cost and achieve proportionate approach by prioritising simplicity, focusing on key metrics, and maintaining a clear line of sight to policy decisions.