HM Treasury
1 Horse Guards Rd
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By email

06/02/2025

Dear HMT Green Taxonomy team,

BVCA feedback on HMT's Green Taxonomy consultation
The British Private Equity and Venture Capital Association (BVCA) is the industry body and public policy advocate for the private equity (PE) and venture capital (VC) (private capital) industry in the UK. We represent the vast majority of all UK-based private capital firms, as well as their professional advisers and a large base of UK and global investors. In 2023, UK-managed funds raised a total of £59.6bn to be invested globally, with £20.1bn having been invested by private capital into UK businesses in sectors across the UK economy. There are over 12,000 UK companies backed by private capital which currently employ over 2.2 million people in the UK. Approximately 58% of the businesses backed are outside of London and 90% of the businesses receiving investment are small and medium-sized enterprises (SMEs).

As a sector we support the Government's aim to transition to a net zero, climate resilient, nature positive economy and recognise the importance for the long-term economic growth of the economy. The UK's private capital industry is a key partner for helping deliver these objectives by drawing global investment into UK companies. Private capital invests for the long term, with an average investment period of 5.5 years, in contrast to less than a year in public markets. Private capital backers need to know their business will be sustainable for a future buyer and they have the patience and know how to make the changes needed. Private capital provides public value by investing in environmental and social solutions and growing companies that are resilient to tomorrow's world.

Furthermore, 90% of investments made by private capital are into SMEs, enabling it to reach parts of the economy others cannot, making it an essential piece of the jigsaw in enabling the UK to meet its net-zero objectives. It is, therefore, crucial for UK growth, competitiveness and the green transition that UK regulation supports private capital activity effectively, catalysing investment in innovative and fast-growing SMEs to enhance their performance.

We are grateful for the opportunity to comment on the Government's proposals to consider whether a UK Taxonomy would be "*additional and complementary to existing polices in meeting the objectives of mitigating greenwashing and channelling capital in support of the Government's sustainability objectives*". Considering these two key objectives and questions asked in the consultation we have set out below our summary response based on feedback from BVCA members, including general partners (GPs), Limited Partners (LPs) investment professionals, legal teams and other professional service providers. **Our view overall is that at this stage of the transition, and given the existing investment and regulation landscape, a UK taxonomy would not be the most effective policy to deploy to support these objectives**. We explain our rationale for that assessment below, along with responses to the relevant consultation questions. We would be happy to discuss or clarify any of these points further if helpful.

Summary
While the BVCA fully supports the UK's ambition to lead in sustainable finance and achieve its net-zero commitments, **developing a standalone UK Green Taxonomy is not considered to be the most effective policy approach to achieve this.** This reflects concerns about regulatory duplication and interoperability between the UK and other key regions, the need to mobilise private capital for net zero and the opportunity for the UK to focus on transitional market growth. **Therefore, we consider the UK should not develop its own green taxonomy as this could limit the flow of private capital for the green transition and the growth opportunities the net zero transition represents for the UK**. In this response, we outline the potential

challenges of a UK-specific taxonomy and explore alternative approaches that could better support the transition to a sustainable economy.

Through engagement with BVCA members, feedback has suggested that, instead of a new taxonomy, there are opportunities to leverage existing frameworks and regulations which have already been designed to address the stated goals from government. Leveraging insights from taxonomies in other regions presents the UK with a unique opportunity to collaborate with international stakeholders and develop a more effective alternative to a standalone taxonomy. This approach would avoid adding further regulatory layers that could increase burdens for organisations and hinder the government's progress toward its goals.

To build on the UK government's ambition to become the global leader in sustainable finance and the need to catalyse private capital for net zero, efforts should focus on creating an enabling environment for effective transition finance. This shift of focus should enable the UK to catalyse private capital, particularly in areas where it is well positioned to excel, such as supporting SMEs in improving sustainability performance and investing in innovative, enabling technologies to drive scale and growth. We see this as important as transition is an area of the market that a taxonomy would not naturally cover due to its nascent nature.

We would encourage that the Government looks to the recommendations in the Transition Finance Market Review report published in October 2024 and aligning its sustainability objectives and net zero goals with the need to grow the transition market. We are specifically looking forward to the seeing the outcomes from the development of the Transition Finance Council co-launched with the UK Government and City of London Corporation (CoLC).

Following extensive consultation with the BVCA member base, our key recommendations, are as follows:

- **A UK Green Taxonomy is not the optimal tool to deploy** to effectively channel capital for the green agenda as it may create costly fragmentation, weaken global alignment and hinder the flow of private capital investment.
- The UK should **work with the EU to simplify reporting** and recognise that certain UK standards meet the EU Taxonomy's Technical Screening Criteria (TSC) and that UK assurance processes align with Corporate Sustainability Reporting Directive (CSRD). Given that many UK companies will be subject to CSRD and report under the EU Taxonomy, aligning these standards would facilitate integration of UK-reported data into EU Taxonomies.
- The UK should not mandate UK companies to report under the EU Taxonomy but **allow companies that are not in scope of CSRD the option to align** if there is benefit in doing so.
- There is an opportunity to **prioritise the growth and scaling of the transition finance market**, as recommended in the TFMR, rather than diverting efforts toward developing a UK green taxonomy.

UK Green Taxonomy Value Proposition Challenges:
We have provided context below around the challenges that the UK could face in implementing a UK Green Taxonomy and any proposed recommendations. **Whilst our stance is not in favour of a new taxonomy**, below we have detailed challenges which should be considered if one is implemented.

Competing taxonomies
We are concerned that a UK green taxonomy could be complex and burdensome to introduce in practice. The prospect of a UK Green Taxonomy raises critical concerns, especially considering challenges faced by users of the other numerous global taxonomies. For example, the EU framework has faced criticism and implementation challenges and a UK-specific taxonomy risks replicating these problems without clear added benefits. Furthermore, many investors already rely on the EU Taxonomy and there is a firm belief that layering on another taxonomy, when interoperability is essential, risks creating burden with little beneficial outcomes. This leads to an argument that the absence of a UK taxonomy may not inherently disadvantage the UK.

Through detailed discussions with BVCA members and research performed we have identified limited examples of where implemented taxonomies have effectively achieved the intended objectives. Bearing in mind the lessons learned from other geographies, we are concerned that a new UK taxonomy could become

disproportionate, onerous or resource-intensive from both a government and a user perspective. Feedback, by users and non-users of other taxonomies, suggests a widespread reluctance to engage, with stakeholders reporting that alignment efforts are expensive, administratively burdensome and may not ultimately add value. This feedback applies throughout the private capital industry, from fund managers to institutional investors. Furthermore, there are frameworks, regulations and guidance being released which attempt to achieve much of what the UK taxonomy will seek to achieve in the way of mitigation of greenwashing and sustainability classifications for organisations, which may result in potential duplication.

Thought should be given to the efforts currently being made by geographies such as the EU and other jurisdictions to iron out inconsistencies and inherent challenges in future iterations of their taxonomies. Additionally, consider exploring whether this presents an opportunity for closer alignment and cohesion with the EU commission. This could include enhancing cross-border investment, fostering global harmonisation of sustainable finance standards and an opportunity to position the UK as a leader in green finance.

Short-term mindset challenges

A taxonomy can cause short-term behaviour among investors, rather than encouraging investing for the long-term, which contradicts the private capital investment model's long-term value creation approach. For example, it can encourage investment in green businesses at the expense of providing transition finance to enable more businesses to become greener. Additionally, taxonomies which have shorter review timeframes may result in classification changes between sustainable and non-sustainable activities which would negatively affect the investment space because of confusion caused from changing classifications.

Interoperability, classification and alignment difficulties

Binary classifications in green taxonomies often oversimplify nuanced activities, leading to potential misallocation of capital and the exclusion of certain sustainable initiatives. The "Do No Significant Harm" criteria, while well-meaning, are often impractical and overly rigid, creating additional challenges for businesses.

Aligning also poses difficulties as compliance with sustainability taxonomies tends to require robust data collection and reporting mechanisms. Managing data requirements across regions can be resource intensive as they differ per jurisdiction (for instance, assessing environmental criteria at an asset level, without having clarity on these exact criteria). The reporting processes are new and yet to be fully evaluated, especially in the context of taxonomies that include 'Do No Significant Harm' principles, which has proven to be the most challenging when it comes to EU taxonomy implementation.

There are further questions around how the UK Green Taxonomy will integrate with other reporting requirements and what mechanisms will ensure compatibility with the EU framework while addressing inefficiencies. Any implementation needs to complement and work synchronously with existing regulations in the UK and the EU. A well-designed taxonomy must aim to drive progress, enabling companies to navigate the transition effectively without imposing undue barriers.

For the UK, it will be crucial to ensure its taxonomy (should it be implemented) is complementary and supportive, especially in a transition period where clear pathways to green objectives are vital. The Government must clearly define the case for introducing a taxonomy, drawing lessons from other regions, such as the EU, and keeping in mind that the EU taxonomy is expected to evolve for ease of use anyway.

We have provided further context to our feedback below in direct to response to the questions posed by the consultation.

Questions:

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 detailed already we consider that a UK taxonomy is not the optimal lever to deploy to meet the overriding objectives of reducing green washing and catalysing capital for private investment. It has the potential to conflict with existing frameworks and regulation in the UK and other important geographies such as the EU. Furthermore, insights from taxonomies in other geographies indicate that introducing a new taxonomy could hinder capital flow and add unnecessary burdens at a time when facilitation to enable growth is crucial. This is especially significant where complex regulations, frameworks and data reporting requirements developed for the largest and most environmentally impactful companies are already causing difficulties at the SME level where resources are not as readily available. We are of the opinion that there are alternate policies which could be considered instead, with the potential to create more impactful outcomes which are aligned with the goals of the UK taxonomy. We have provided further detail below:

a) Alternative policies which could prove valuable and meet the needs that a UK green taxonomy:

Existing frameworks such as the Sustainable Disclosure Regulations (SDR) and the Transition Plan Taskforce (TPT) already address anti-greenwashing and improve transparency, but they may lack the activity-level granularity needed to evaluate individual projects or investments against sustainability criteria. Furthermore, CSRD reporting requirements must be considered as these are likely to change in the short-term, resulting in EU taxonomy updates. If introduced, care must be taken to ensure that a UK Taxonomy does not duplicate existing efforts or create unnecessary complexity within the policy landscape. Instead, it should target gaps—such as providing detailed classifications to support UK's net-zero ambitions —thereby offering additional value to stakeholders.

Rather than introduce a new taxonomy, there is an opportunity to focus efforts on and grow the transition finance market. The TFMR report specifically describes financial sector guidelines for credible transition finance and general guidelines for classification of what constitutes transition finance. This approach will be more beneficial as there should be a focus on transition activities rather than just the high impact, heavy emitting industries and sectors. The TFMR specifically lays out these classifications which can form part of "principles for green investment in the UK" instead. Furthermore, the report clearly lays out activity- and entity-level standards which can complement other sustainable policies.

Allow for the ability to reference alignment to other jurisdictional taxonomies, where appropriate and required. If a taxonomy is implemented and does not align, or duplicates aims, there is the risk of creating unintended complexities because of non-interoperability with other taxonomies or reporting redundancies. Furthermore, seeking to create a new taxonomy which strives to improve on other taxonomies (such as the EU taxonomy) may consequently result in a disconnect between both. Creating confusion in methodologies and added difficulty when disclosing under both.

b) Role of Activity-Level Standards and Data:

Activity-level data can provide a more detailed lens through which investors can assess environmental impact, thus complementing existing sustainable finance policies. For instance, ISSB disclosures or transition plans

focus on company-level strategies, while a classification system can drill down to assess the sustainability of specific economic activities. However as previously mentioned, there are policy recommendations detailed within the TFMR which talk to activity and entity level classifications but approach it from a transition perspective rather than a "sustainable activities" perspective.

Many private capital companies are still in the initial stages of transition and may struggle to meet strict taxonomy-specific requirements. However, when aligned with existing government policies, such as Sustainability Disclosure Requirements (SDR), transition plans and broader sustainable regulations, classifications can enhance transparency and accountability at the activity level, complementing the entity-level disclosures provided by frameworks like the International Sustainability Standards Board (ISSB) standards. A well-structured classification (not taxonomy) system could support alignment across different transition phases, maintaining investor confidence and sustaining progress. Key design features for a classification system have been discussed in question 3 below.

While frameworks like SDR address greenwashing for large corporations, a classification system may strengthen this by offering detailed classifications to prevent misleading claims about sustainability at the activity level. However, its introduction should be justified by clear gaps in current policies to avoid unnecessary duplication and disproportionate requirements for SMEs and smaller private equity and venture capital houses.

Finally, to mobilise capital effectively, any classification system should support the financing of transitional activities, particularly in harder-to-abate sectors. Over-prioritising already-green industries, which is a shortcoming of many green taxonomies, risks neglecting the transition needs of high-emission sectors, which are critical to achieving net-zero goals.

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)?**

While there are potential use cases for taxonomies, it is considered these are better suited to larger organisations than SMEs. The principal reason for this is that implementation costs often outweigh the benefits and risk slowing capital allocation to this vital sector of the economy that needs to transition. However, we have provided some comments below in relation to the consultation's proposed use cases and noted opportunities where we consider they may exist.

a) <u>Benefits of use cases proposed in the consultation:</u>

Potential benefits of proposed use cases, as presented in the consultation (in bold), include:

- **Acting as an input to project and business finance decisions, providing consistent standards to allow meaningful comparisons over time:** We agree with this proposed use case, however, if the taxonomy does not appropriately classify products and is updated consistently, it may complicate investment processes and result in non-investment in sustainable products.
- **Supporting investor stewardship and engagement:** We do not agree that a taxonomy would support effective stewardship and engagement. Stewardship focuses on long-term value creation through

managed capital whereas a taxonomy has the potential to confuse well-tested stewardship approaches by introducing further complexities through a classification system.

- **Informing the development of sustainability-focused financial products:** We agree with this proposed use case, however, a taxonomy may shift focus to a pure focus on sustainability products rather than a focus on both sustainability products and transition-related investments.
- **Application to investment fund and investment portfolio product disclosures:** This may be helpful; however, this should align with other recommended policies around product and entity-level disclosures such as those mentioned in the TFMR review.
- **Use as part of the Government's wider climate and environment strategy:** A taxonomy could be helpful to implement a government's future policies and to support a sustainable finance strategy. This must not, however, be at the detriment of organisations attempting to align.

b) Other identified use cases include:

We have not identified extensive use cases; however, a taxonomy or other classification system may be used to provide clear, standardised criteria to guide the issuance of green bonds and other green instruments, ensuring alignment with sustainability objectives. It could also serve as a tool to integrate private sector capital into the Government's broader climate and environmental initiatives. Please refer to our answer to Q3 for further information around this.

c) Linking use cases to stated goals:

Each use case should be evaluated for its contribution to the stated goals, such as enhancing transparency, supporting investment flows, or aligning with sustainability objectives. Examples of use cases include:

- Green bonds and project finance to ensure that funds are directed to projects that deliver genuine environmental benefits.
- Facilitation of investment in the technology solutions that unlock wider transition/ pathway to net zero (e.g. climatech or carbon accounting ratings technologies etc)
- Investment stewardship to enable informed decisions and encourage accountability in capital deployment.
- Transition financing to address financing gaps for hard-to-abate sectors, crucial for achieving net-zero ambitions.

d) Beneficiaries:

We hold the view that larger and listed organisations may stand to benefit the most from a UK taxonomy or classification system, whereas SMEs may not find immediate value. Examples include:

- Larger financial institutions who require improved tools for evaluating sustainable investments.
- Corporates who require access to clearer standards for sustainability reporting and attracting green investment.
- Stakeholders in underlying investments, such as pension participants.
- Government Agencies to assist with enhanced integration of sustainable activities into national climate strategies.

e) Concerns on practical challenges:

Concerns regarding implementation, data availability and administrative burden associated with each use case should be considered. These include:

- High costs of aligning with taxonomy requirements, especially for SMEs. Companies often lack the systems and expertise to collect the detailed data required, creating adoption barriers and need for expensive third-party support.
- Overemphasis on already-green sectors could deter investment in transitioning industries critical to achieving broader sustainability goals.

- Use cases may overlap with existing regulations and taxonomies, reducing their incremental value through redundancy and creating international tension.

f) Role of government:

The role government should be an active role to primarily ensure the taxonomy's effectiveness, focusing on the following areas:

- Oversight and governance to ensure any rolling updates maintain relevance with evolving sustainability standards and result in classifications remaining as stable as possible (limit constant changing of activities' sustainability status).
- Financial and technical assistance, particularly for SMEs and harder-to-abate sectors.
- Harmonise taxonomy implementation with existing regulations to prevent duplication and excessive compliance burdens.
- A gradual rollout starting with larger companies and sectors most in need of transition financing.

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.

As previously detailed, we do not believe the development of a UK green taxonomy would be the most effective tool to deploy at this stage. As this may detract from the need for transition finance and mobilisation of capital by creating an environment which is difficult to navigate. We recognise the challenges associated with aligning eligible transition activities with long-term targets in various taxonomies. These tensions arise as both established and emerging taxonomies face setbacks in timelines and implementation due to the complexities of addressing transition issues.

The trajectory of the global economy will determine the success or failure of the transition effort. A transition that is abrupt and strictly enforced could cause significant economic and societal disruptions, exacerbating already challenging conditions. Conversely, a delayed or poorly executed transition could result in higher long-term costs and enduring consequences.

Countries will increasingly rely on actual data, instead of proxy data, to track and report progress toward transition targets, irrespective of what current sustainability taxonomies define as acceptable activities. This data-driven approach will maintain pressure on nations to ensure transition criteria remain balanced and aligned with both domestic goals and globally accepted commitments.

A UK approach supporting the allocation of transition finance, when designed to explicitly address the unique requirements of transition pathways, would be preferable. Its utility lies in defining clear, realistic criteria for measuring progress towards decarbonisation, rather than focusing solely on achieving end-state "green" outcomes. Below is an analysis of how a well-designed transition framework or tool can fulfil this role:

Tool for the support of transition finance:

The framework should focus on transition pathways and prioritise activities contributing to decarbonisation that may not yet meet full sustainability thresholds. This ensures that transition finance is directed to sectors and activities with the highest potential for meaningful progress. Furthermore, high-emission sectors facing significant transition challenges require specific attention. Without tailored criteria, these industries may struggle to secure the financial resources needed to transition, undermining the objectives of transition finance.

Key Design Features for a classification system:

- Ensure fairness by tailoring design standards to organisational sizes and capabilities, allowing SMEs and hard-to-abate sectors to participate without undue burden, while exempting early-stage businesses and focusing on material data.

- Establish criteria aligned with the UK's net-zero goals, incorporating specific milestones to create a structured and transparent decarbonisation roadmap.
- Implement a categorisation system (e.g., green, transitional, non-aligned) to support industries at varying stages of sustainability, fostering gradual improvements.
- Develop tailored thresholds for high-emission sectors, promoting viable and gradual decarbonisation without a one-size-fits-all approach.

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?**

Should the UK decide to implement a taxonomy, key performance indicators (KPIs) should assess both the financial and environmental impacts of its implementation. Success can be evaluated through clear increases in financing and capital deployed by UK and international investors into the "sustainability activities" defined by the taxonomy. Another success factor would be the ease of use and interoperability of the taxonomy with other regulations and frameworks. Additionally, analysis of the volume and sectoral distribution of transition capital deployed is important to ensure that funds are not overly concentrated in companies already aligned with green goals but rather support diverse sectors. Furthermore, through regular engagement and feedback from users of the taxonomy, it should be made empirically clear that a taxonomy has provided more value than onus.

Potential Key Performance Indicators (KPIs):

- Volume of capital mobilised for taxonomy-aligned projects locally and globally and attraction of additional capital at an investor level.
- Reduction in sectoral greenhouse gas (GHG) emissions across targeted sectors.
- Uptake and integration of the taxonomy in corporate and investor practices.
- Progress in transitioning high-emission sectors.

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?

The EU taxonomy framework has faced criticism and significant implementation challenges and a UK-specific taxonomy risks replicating these challenges without clear added benefits and the absence of a UK taxonomy does not inherently disadvantage the UK. Furthermore, many investors already rely on the EU Taxonomy as part of CSRD requirements, it is therefore important that any taxonomy aligns with these existing regulations to limit burden, reduce duplication and minimise negative impacts on any taxonomy goals. We have provided further detail on the need for interoperability below in response to *question 6*.

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.

Interoperability with existing standards and frameworks and other taxonomies is crucial for the design of any new sustainability policies. Private capital operates internationally, yet regulatory divergence already presents significant challenges. It is essential to prevent these from worsening, especially as inconsistencies in taxonomies risk further exacerbating the problem. There is currently a global divergence in taxonomy approaches, with some being prescriptive and others being principles-based, creating difficulties in alignment between companies working across geographies. There is an absence of a coordinated effort or global baseline which is resulting in a proliferation of different sustainability taxonomies. This will continue to make it increasingly difficult to draw global alignment or interoperability among sustainability taxonomies. Should a

UK taxonomy be introduced, it is difficult to see opportunities for the UK to build and improve on taxonomies that are already implemented whilst remaining interoperable with them and not creating unnecessary challenges for those needing to align with more than one.

Therefore, full interoperability may be impracticable, and non-interoperability may result in greater amount of resourcing spent on attempting to align. Further issues may arise where alignment can be achieved with one taxonomy but not with another. This will be disconcerting to companies and investors and may result in the opposite impact of the taxonomy's aim. The best-case scenario in which this may function effectively would be where there is a mutual recognition of taxonomies by governments, based on consistent and credible targets and reporting methods, to address fragmentation efficiently. This will, however, result in companies who are disclosing under more than one taxonomy being able to decide which they will disclose under, ultimately rendering a UK taxonomy redundant.

If a UK taxonomy is implemented, interoperability with existing taxonomies, particularly the EU Green Taxonomy, is essential. This will ensure compatibility and ease of use while reflecting the UK's unique policy objectives. Common naming conventions and a harmonised structural approach would simplify understanding and implementation. Additionally, using similar benchmarks and performance thresholds as existing taxonomies will promote global consistency and facilitates cross-border investments. While prioritising interoperability in data formats and reporting structures to enhance global compatibility, the UK Taxonomy must also ensure that its criteria are tailored to the nation's unique economic and environmental circumstances, especially considering the imminent endorsement of ISSB standards and other incoming frameworks and regulations.

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

The development of a UK Taxonomy can benefit significantly from lessons learned in other jurisdictions. For example, the EU Taxonomy has encountered challenges related to high complexity, significant implementation costs and extensive data requirements, which has created barriers to adoption. A notable issue is the difficulty of aligning financial systems with sustainability frameworks. Many existing financial tracking systems lack the granularity to capture activity-level data or classify expenditures according to sustainability criteria. Additionally, aligning turnover, capex and opex with the taxonomy requirements has proven challenging, underlining the importance of redesigning processes to achieve alignment.

Other jurisdictions also illustrate key interoperability pitfalls, such as differences between prescriptive and principles-based approaches. For instance, while the EU adopted a prescriptive model, regions like Singapore and Malaysia have leaned towards a principles-based approach. This divergence raises questions about the feasibility of aligning eligible transition activities with long-term sustainability targets, especially in the private capital sector where long termism is important. Other, challenges include global interoperability (as discussed in question 6), difficulties in implementing taxonomy-related policies across diverse markets and scepticism about whether alignment truly delivers value and appropriate outcomes. Companies often underestimate the scale of effort required to conform to taxonomy standards, complicating adoption further.

Engaging stakeholders such as businesses, financial institutions and policymakers early in the process is essential, as this provides clear compliance guidance and timelines while fostering buy-in. Implementing taxonomies through phased rollouts or pilot programs, like Canada's approach, allows for valuable real-world feedback and refinements before full adoption.

If implemented, a taxonomy must be inclusive, addressing the unique challenges of SMEs and industries with limited short-term decarbonisation options. Finally, providing training and resources, as seen in the EU's technical assistance initiatives, is critical for helping stakeholders understand and effectively implement the taxonomy.

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

Most sustainability taxonomies focus on high-impact sectors, particularly the heavy emitting industries and sectors. The common justification for this is that this is where the biggest environmental transformation needs to occur.

An alternate suggestion for a UK classification system should be to prioritise sectors strategically ensuring that the system maximises its impact and feasibility for organisations which are vital for the transition and are often excluded from the aforementioned "high-impact sectors". Noting the challenges above (*question 2e*), the taxonomy could be expanded over time to include additional sectors, aligning this progression with market readiness, the availability of relevant data and the stage of the net-zero transition reached by the UK.

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

Initially, the focus should be on climate mitigation and adaptation objectives to effectively support the UK's net-zero target. If a taxonomy is introduced, it should concentrate on the transition of high-impact sectors and activities first, ensuring the greatest potential for decarbonisation and meaningful progress toward environmental goals. It can then be slowly phased in for SMEs who may look to align but do not have as urgent a need. This strategy will enable a taxonomy to be both impactful, manageable and address critical areas of need. Whilst providing flexibility for future expansion. We reiterate that these priorities could be better addressed by other policy levers rather than a separate green taxonomy.

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

When developing objectives, it is crucial that key metrics align with the UK's net-zero goals as a priority. Metrics used to demonstrate alignment, which can be adapted from other taxonomies, include the percentage of capex, revenue and opex aligned to those goals. Sector-specific metrics are also essential to account for the unique pathways and challenges industries face, ensuring fair and actionable assessments. Tracking these metrics over time can highlight the pace of alignment, supporting a dynamic understanding of progress.

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)**

As previously detailed, we do not consider a UK Taxonomy will be the most effective tool to contribute towards the stated goals. We have also suggested any key design features in response to *question 3* should the Government choose to implement a taxonomy. To build on these points, we would also comment that from a usability perspective, the ability to include estimates for a phase-in period is important as many other taxonomies do not allow for estimates of data. Estimates are important for smaller companies who are still building their data collection capabilities and are relying on proxy data to inform their reporting. This can then be phased out when companies are more comfortable with the taxonomy. It should also be ensured that the taxonomy supports an inclusive transition by avoiding disproportionate disadvantages to industries with hard-to-abate emissions, fostering equitable pathways towards sustainability goals.

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

Incorporating the Do No Significant Harm (DNSH) principle into a UK Taxonomy should consider practicality and cost-effectiveness. Implementing DNSH can be resource-intensive, as it often requires proving a negative. The EU DNSH principle (and minimum safeguards) is stringent and can often lead to inability to align, despite

meeting most of the requirements under the DNSH principles to align. This principle can impose significant costs on companies, frequently necessitating expensive advisory services without proportionate benefits and ultimately creating minimal value.

If DNSH principles were implemented, it should be ensured that these include clear, measurable and practicable criteria to minimise complexity and costs. It should also avoid reliance on hypothetical or hard-to-verify assessments, ensuring that the principle remains actionable and avoids unnecessary burdens on stakeholders.

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?**

Whilst updates every three years are considered reasonable, they should be based on substantive scientific or policy advancements rather than an arbitrary timeframe. There is a risk that frequent updates could undermine investor confidence, which is critical for private capital who invest for the long term. For example, if nuclear fusion were classified as "green" and later reclassified, it could undermine investor confidence and potentially result in misaligned, stranded assets. A classification system should, therefore, balance adaptability with long-term consistency to support sustainable goals while providing a stable framework.

Frequent changes further risk creating compliance burdens for users, because of the need for growing guidance and the need to provide sufficient transition periods to enable smooth implementation. Therefore, a fixed three-year frequency may challenge companies, particularly those requiring time and resources to adapt to updated criteria, such as costly system overhauls or contradicting classifications between different taxonomies.

It is considered essential that any approach adopted includes the ability for a flexible update timeframe that is driven by compelling evidence for change rather than rigid timelines. This should also include provision for adequate transition periods to minimise disruption from any updates to support businesses in aligning with new criteria.

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

Effective governance and oversight arrangements will be essential for maintaining and updating a UK Taxonomy should it be established. The establishment of an independent governance structure with representation from multiple stakeholders, including government, private sector and academia, to ensure balanced input and credibility is critical to allow for diverse viewpoints and input from both investors and implementers. A critical governance consideration should be that the value of the taxonomy must regularly be reviewed, particularly considering whether the taxonomy continues to serve it's intended purpose.

If you have any questions or points it would be helpful to discuss further, please contact Chris Khoury ckhoury@bvca.co.uk or Harriet Assem hassem@bvca.co.uk.

Yours faithfully,

Tim Lewis

Chair, BVCA Regulatory Committee

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