

Streamlining and increasing the usability of the Do No Significant Harm (DNSH) criteria within the UK Green Taxonomy

Final Report
02 August 2023

Preface

One of the key objectives included by the UK Government in the Green Technical Advisory Group’s (GTAG’s) remit was to advise on an approach to developing a UK Taxonomy that is usable and practical for financial and non-financial firms to use.

Quite early on in GTAG’s deliberations, issues were identified with the usability of the do no significant harm (DNSH) elements of the EU’s instrument. As we noted in our October 2022 GTAG publication [Advice on the development of a UK Green Taxonomy](#), analysis by FTSE Russell in 2021 found the FTSE Global All Cap Index universe had around 6% potential eligibility under the EU Taxonomy Substantial Contribution criteria, but if DNSH criteria are also added as an alignment requirement this number would be about 0.4%.

GTAG analysis reveals some of the potential drivers behind these low figures, including the number of DNSH criteria that are inconsistent, overly repetitive, and difficult to measure and understand due to ambiguity in drafting. More fundamental issues were also identified around a lack of clarity on fundamental definitions such as ‘significant harm’.

The good news is GTAG’s market engagement also found that, despite these issues, the market strongly supports the concept of DNSH. It also believes that the concept needs to be better executed to avoid diminishing the overall usefulness of the UK Green Taxonomy.

This report, the third from GTAG, sets out a practical roadmap for how that could be achieved in a way that stimulates net zero-aligned investment that safeguards nature and wider environmental objectives.

One of our recommendations includes clarifying the context through setting out the purpose of, approach to and definition of DNSH in the UK Green Taxonomy. This would help the UK move beyond the largely compliance-based focus on demonstrating alignment with current environmental laws and regulations that underpins the EU’s rules, which – given one would expect the relevant laws to be followed and permits to be in place as a condition of doing business – seems to have limited added value for either preparers or users of the data.



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We also recommend practical revisions – such as establishing functional design parameters for the drafting of DNSH criteria to improve the consistency and usability of criteria, as well as streamlining the text to improve the usability of DNSH reporting requirements but also, as a result, the taxonomy as a whole.

In pursuit of more and better data, GTAG recommends improving transparency by moving beyond the binary approach to DNSH reporting that is currently the norm and adopt an approach to reporting that would enable companies with activities that are not fully taxonomy aligned, but meet the substantial contribution and some DNSH criteria, to disclose the extent to which they meet the DNSH criteria. This will provide the market with valuable insights that would not otherwise be made available – as well as acting as a spur to undertake, where possible, remediative action.

Finally, given the plethora of taxonomies in development globally and the fact that there has been near global adoption of DNSH, GTAG advises the promotion of this approach as a means to also promote international interoperability between taxonomies. This includes through the UK’s membership of the International Platform on Sustainable Finance and the International Organisation of Securities Commissions – in a way that puts the UK at the forefront of the drive toward global Green Taxonomy harmonisation.

The UK has the opportunity to benefit from its fast-follower status on taxonomy development – reforming DNSH is a significant means to make that count.

Overview of the principle of DNSH

The principle of DNSH is a key component of many taxonomies in development internationally, including the EU Taxonomy which the UK is using as its base framework. The principle ensures that economic activity supports one environmental objective and does not have an adverse impact on others. This supports the flow of capital into sustainable activities.



Understanding the DNSH principle

EU regulators introduced the DNSH concept of avoiding significant harm under both the Sustainable Financial Disclosure Regulation (SFDR) (Article 2(17)) and the Taxonomy Regulation (Article 17)*. The Taxonomy Regulation establishes six environmental objectives. To be considered environmentally sustainable, an economic activity must meet three criteria:

- a) **Contribute to one or more of the environmental objectives and comply with technical screening criteria.**
- b) **DNSH to other environmental objectives and comply with technical screening criteria.**
- c) **Be carried out in compliance with minimum safeguards.**

DNSH is one of the tests that an economic activity must meet in order to be considered environmentally sustainable, causing no significant harm to the six environmental objectives established under the EU Taxonomy.



DNSH challenges in the EU Taxonomy

DNSH criteria in the EU Taxonomy reveal multiple challenges and are complex to navigate. Some DNSH requirements are unique and forward-looking, with many of them relating to EU legislation. In addition, some requirements are inconsistent and ambiguous. **GTAG has previously recommended Government onshore the EU Taxonomy with an approach of “adopt some and revise some” for technical screening criteria.**



Making DNSH fit for purpose for the UK

Depending on how such DNSH criteria are administered, they have the potential to create significant usability issues for the UK Green Taxonomy. **There are potentially very significant opportunities to streamline, simplify and improve DNSH compliance requirements, without compromising the robust, science-based nature of the criteria.** This GTAG workstream aims to identify opportunities to streamline and increase the usability of DNSH criteria within the UK Green Taxonomy.

Note: the six environmental objectives are climate mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems;

*Principle of do no significant harm (DNSH): <https://emissions-euets.com/carbon-market-glossary/2141-principle-of-do-no-significant-harm>

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Glossary

Term	Description	Term	Description
Activity-based	Activity-based criteria are specific to each activity	NGO	Non-governmental organisation
Alignment	Aligned activities meet the requirements to be considered 'green' under the relevant taxonomy	OECD	Organisation for Economic Co-operation and Development
All-or-nothing	In this context, used to refer to the binary outcome of DNSH assessment being 'fully met' or 'not met' under current conditions	Principles-based	Principles-based criteria are non-specific for each activity and so for DNSH, refer to general principles for avoiding harm
ASFI	Australian Sustainable Finance Institute	RAG	Red-Amber-Green
CSA	Canadian Standards Association	Risk-based	Requirements and assessment against them is informed by risk associated with the activity
CSRD	Corporate Sustainability Reporting Directive	SAFI	Sustainable Agriculture Finance Initiative
Disclosure 'gate'	The activity must meet the disclosure requirement before alignment can be calculated	SC	Substantial Contribution
DNSH	Do No Significant Harm	SDR	Sustainability Disclosure Requirements
Eligibility	Eligible activities are those covered under the relevant taxonomy	SFDR	Sustainable Finance Disclosure Regulation
GTAG	Green Technical Advisory Group	SIC	Standard industrial classification of economic activities
IMO MARPOL	International Maritime Organization- International Convention for the Prevention of Pollution from Ships	TCFD	Task Force on Climate-Related Financial Disclosures
IPCC	Intergovernmental Panel on Climate Change	Traffic light approach	Various 'red-amber-green' type approaches, sometimes used in taxonomies to indicate the extent to which harm is occurring and/or being mitigated
ISIC	International Standard of Industrial Classification	TSC	Technical Screening Criteria
ISSB	International Sustainability Standards Board	UNGPs	United Nations Guiding Principles on Business and Human Rights
MSS	Minimum Social Safeguards		
NACE	Nomenclature of Economic Activities		

Important Notice

Important notice

This Final Report has been prepared to support ongoing efforts to improve the usability of Do No Significant Harm (DNSH) relating to the UK Taxonomy, supporting the objective to develop a usable UK Green Taxonomy without compromising the science-based, robustness of the criteria, learning from some of the issues experienced in the EU Taxonomy reporting process. This Final Report will remain at all times the responsibility of the Green Finance Institute (GFI).

Scope and assumptions

The GFI aims to provide the Green Technical Advisory Group (GTAG) with opportunities to streamline and increase the usability of DNSH criteria within the UK Green Taxonomy through desktop research and market testing. This Final Report contains the summary of DNSH key challenges and findings resulting from this work, along with opportunities and practical steps to streamline and increase the usability of DNSH criteria.

The following assumptions were made in developing the Final Report:

- The findings will feed into GFI's ongoing efforts to improve the usability and data relating to the UK Taxonomy, supporting the wider UK Government objective of making the EU Taxonomy fit for purpose in the UK.
- The findings, opportunities and practical steps provided were reviewed and iterated with feedback from GTAG and relevant stakeholders.
- In determining which opportunities to put forward, consideration would be given to the wider context of UK Taxonomy developments.
- The Final Report only comments on the usability of DNSH criteria and not on the appropriateness, scope, and efficacy of DNSH criteria for onshoring to the UK Green Taxonomy.

All points in this Final Report are supported by evidence from the following phases of work:

1. Research

- Analysis of EU Taxonomy DNSH criteria against a bespoke scorecard – a scorecard was developed and agreed with key stakeholders, and DNSH criteria were assessed against this scorecard.
- Review of broader usability concerns within the EU Taxonomy related to DNSH – this was limited to desktop research on design aspects of the EU Taxonomy, highlighting those relevant to DNSH.
- Review of international best practices – broad reading was undertaken on 39* approaches to international taxonomies to inform the nine jurisdictions selected for high-level comparative analysis. Based on the outcomes of this analysis, four jurisdictions were progressed for deep-dive analysis.

2. Market Testing

- Market testing with key stakeholders – the question set was agreed in advance with key stakeholders and used across all sessions. In total, sessions with 34 stakeholders from 16 organisations, including environmental NGOs, regulators, financial institutions, and corporates, were conducted.
- High-level survey – the question set was agreed in advance with key stakeholders and distributed to participants. In total, 15 survey responses were received.

*As per GTAG analysis, a total of 39 taxonomies were assessed, which represents the comprehensive count as of March 2023.

Executive Summary

Executive Summary (1/3)

- **The market strongly supports the concept of ‘do no significant harm’ (DNSH)** but agrees that the concept needs to be better executed in order to avoid diminishing the overall usefulness of the UK Green Taxonomy.
- GTAG’s analysis reveals that implementation of the DNSH criteria as drafted in the EU have been challenging due to the number of criteria which are inconsistent, overly repetitive and difficult to measure and understand due to ambiguity in drafting. There is also a lack of clarity on fundamental definitions such as ‘significant harm’.
- This could lead to market dissatisfaction with taxonomies more generally, undermining the UK’s wider green finance agenda, which should be underpinned by the UK Green Taxonomy¹.
- Despite current usability issues in the EU’s approach to DNSH, **market support for DNSH to be retained in the UK is strong, provided substantive revisions and streamlining are undertaken to improve the usability². GTAG’s view is that HMG should ensure that a UK Green Taxonomy keeps the concept of DNSH but takes steps to streamline criteria, while ensuring being science-based and ambitious remain central to all criteria.**

¹ Reporting against the UK Taxonomy will form part of the UK’s Sustainability Disclosure Requirements (SDR) regime and will support other important green finance policy tools by providing a common framework to define sustainable economic activities. The government defined the aims of the taxonomy in [Greening Finance: A Roadmap to Sustainable Investing](#) as being to: create clarity and consistency for investors, improve understanding of companies’ environmental impact, and provide a reference point for companies.

² GTAG first outlined the need for this work in the October 2022 advice paper, [Advice on the development of a UK Green Taxonomy](#).

Executive Summary (2/3)

- GTAG also considers that **HMG could enable increased transparency in taxonomy disclosures by proposing that further information be reported for non-aligned activities in instances where the misalignment is due to not meeting all DNSH criteria.** In such instances, preparers would detail which DNSH criteria are not met and why. **Such activities would not be taxonomy aligned, but the proposal would improve transparency of activities and build on the binary disclosure approach in the EU Taxonomy³.**
- GTAG proposes an approach whereby, as within the EU, only activities meeting all DNSH criteria would be considered taxonomy-aligned. **However, where one or more criteria are not met, companies can provide further information explaining why they do not currently meet all criteria** (e.g. this could be due to data availability, or an existing asset being constructed to previous green standards, which means they cannot meet all DNSH criteria⁴). Where possible, clear, time-bound remediation plans for addressing outstanding issues should be included in an accompanying document, such as transition plans once they come into force in the UK.
- **This approach will increase the transparency and availability of decision-useful information to the market,** while limiting the potential for increased burden on companies making disclosures. It should be noted that GTAG is advising on how to treat the capex KPI under the taxonomy, which includes the ability to achieve alignment within a certain number of years, in a separate research paper. This recommendation is independent of the DNSH recommendations but the recommendations complement each other – a company investing to fix its DNSH criteria that will become taxonomy-aligned at maturity of the project could claim taxonomy-aligned capex.

³ This approach will need to be consulted on.

⁴ This approach would be consistent with the Technical Expert Group (TEG)'s recommendation that a due diligence approach can be used to assess compliance with 'do no significant harm' in the absence of relevant information.

Executive Summary (3/3)

- GTAG analysis shows that **there has been a near global adoption of DNSH in taxonomies under development internationally**. To promote international interoperability, usability of taxonomies more generally and secure the UK's role as a world leader for green finance, HMG should promote this new approach to DNSH through bilateral and multilateral meetings and international fora, to put the UK at the forefront of Green Taxonomy harmonisation⁵.
- The detailed mapping and scoring of EU DNSH technical screening criteria (TSC) within this report should provide a starting point for HMG to undertake this streamlining work, but market views will also be needed. A stakeholder forum within the voluntary taxonomy reporting period⁶, coordinated by an independent advisory group, offers the ideal mechanism to facilitate this feedback, to understand challenges and make improvements before mandatory reporting comes into effect.
- **GTAG recommends that any intended change of direction on DNSH in a UK Green Taxonomy should be signaled in the Autumn 2023 initial taxonomy consultation**. This would provide the opportunity to gauge market feedback ahead of more details being set out in future consultation(s).

⁵ This aligns with advice provided by GTAG in recommendations 4 and 10 in the February 2023 paper, [Promoting the international interoperability of a UK Green Taxonomy](#).

⁶ Two year voluntary reporting period announced in the [updated Green Finance Strategy](#), published in April 2023.

Recommendations

1. HM Government should **confirm the purpose of, approach to and definition of DNSH** in the UK Green Taxonomy. This should be set out in the Autumn 2023 consultation.
2. HMG should **improve the transparency of taxonomy disclosures by adopting an approach to disclosures that would enable companies with activities that are not fully taxonomy aligned, but meet the substantial contribution and some DNSH criteria, to disclose the extent to which they meet the DNSH criteria**. This would build on the binary approach seen in the EU Taxonomy. The approach would not consider such activities as taxonomy aligned, but would provide valuable additional information to the market, which the EU system does not currently enable.
3. HM Treasury should **establish functional design parameters for the drafting of DNSH criteria** to improve the consistency and usability of criteria.
4. HMT should **streamline the EU DNSH criteria, while revising them for the UK context to improve the usability of DNSH reporting** in the UK but also, as a result, the taxonomy as a whole. However, streamlining should not weaken the scientific basis for criteria, or the overall ambition level for the UK Green Taxonomy.
5. **Guidance to complement DNSH reporting must be produced by a single authority** (either HM Government departments or the “institutional home” for the UK Green Taxonomy) to support successful and effective implementation of the UK Green Taxonomy.
6. The UK should **advocate for this new approach to DNSH through bilateral and multilateral discussions and international fora**, to put the UK at the forefront of the Green Taxonomy harmonisation debate.

Recommendation 1

1. HM Government should confirm the purpose of, approach to and definition of DNSH in the UK Green Taxonomy. This should be set out in the Autumn 2023 consultation.

- GTAG strongly recommends that HMT retain DNSH as an essential component of the UK Green Taxonomy. However, it is necessary for relevant HMG departments⁸ to provide a clear definition of what is meant by the 'significant harm' principle, and how this applies across environmental objectives.
- HMG should also signal plans to undertake a comprehensive streamlining process that retains consistency with other international approaches⁹, incorporating GTAG's recommendations, to enhance usability and practicality significantly. This will provide market clarity and promote the international interoperability of the taxonomy. This should be set out in the Autumn 2023 consultation.
 - a. This should include a consideration as to how complying with the law should be factored into TSC. GTAG believes that this should be seen as a bare minimum.
 - b. Government should include questions in the Autumn 2023 consultation on any change in approach to DNSH, as recommended by GTAG in the following recommendations. This should include specific questions to identify what is useful information from an investors' perspective, what corporates views on additional disclosures and transparency are, and the appetite for remediation information as set out in recommendation 2.

⁷ This should include all departments involved in developing and implementing the UK Sustainability Disclosure Requirements (SDR) regime.

⁸ Consistency with international approaches may require HMG to determine whether some form of equivalence is acceptable and the extent to which international standards can be used (if at all) within DNSH criteria for the UK Green Taxonomy. This may be determined by whether DNSH is placed on the statute book, as this will dictate what disclosures can be mandated.

Recommendation 2 (1/3)

2. HMG should improve the transparency of taxonomy disclosures by adopting an approach to disclosures that would enable companies with activities that are not fully taxonomy aligned, but meet the substantial contribution and some DNSH criteria, to disclose the extent to which they meet the DNSH criteria. This would build on the binary approach seen in the EU Taxonomy⁹. The approach would not consider such activities as taxonomy aligned, but would provide valuable additional information to the market, which the EU system does not currently enable.

- a. Under the EU framework as currently drafted, if even one of the DNSH criteria is not met, which may not always be in the control of the reporting entity, then the entire activity is classified as not taxonomy-aligned, with no further details provided. There are two reasons why DNSH data may not be provided. Either the DNSH criteria are not met or not all the information required to report against DNSH criteria is available. This is an important distinction – having a reporting framework that does not allow for this distinction to be communicated denies important information to the market and risks undermining the effectiveness of the UK’s wider green finance agenda.
- b. It is important that such activities are not considered taxonomy-aligned, as that would undermine the credibility and legitimacy of the taxonomy, by allowing investments that are still potentially doing significant harm to nature or other environmental objectives, to be defined as green. This would undermine the main objective of the taxonomy as a whole, which is to set a clear bar for investments that can be defined as environmentally sustainable. As progress is made towards net zero goals it is important to avoid causing unintended negative impacts on nature and other environmental goals, as has been acknowledged in other government processes¹⁰, such as the Transition Plan Taskforce which has incorporated consideration of nature impacts into its standard for transition plans, and through the announcement in the Green Finance Strategy of the Land, Nature and Adapted Systems Advisory Group (LNAS Advisory Group) as part of the GTAG’s work.

⁹ In the EU Taxonomy, when reporting an activity’s taxonomy alignment, if any DNSH criteria are not met – or cannot be evidenced – the whole activity is not taxonomy-aligned, without any additional information made available by the reporting entity.

¹⁰ Government also committed to aligning financial flows with nature positive outcomes and legally binding environmental goals as set out in the Environment Act.

Recommendation 2 (2/3)

2. HMG should improve the transparency of taxonomy disclosures by adopting an approach to disclosures that would enable companies with activities that are not fully taxonomy aligned, but meet the substantial contribution and some DNSH criteria, to disclose the extent to which they meet the DNSH criteria. This would build on the binary approach seen in the EU Taxonomy⁹. The approach would not consider such activities as taxonomy aligned, but would provide valuable additional information to the market, which the EU system does not currently enable.

- c. The EU PSF has publicly reported on DNSH usability issues¹¹ and recommended they be addressed. The UK has the opportunity to lead on the form of improved DNSH usability – and get it right for the UK but create a template for other regions to follow too. This could include the EU if it decides to move ahead with revisions.
- d. GTAG’s proposed approach facilitates greater transparency, by offering companies whose activities meet substantial contribution criteria and some DNSH criteria to explain why they do not currently meet the DNSH criteria, and any planned remediation efforts and/or any data gaps. This is particularly relevant for activities and investments that involve existing assets and financial instruments¹². Such remediation plans should be included not in taxonomy disclosures but in other relevant documents, such as a company’s transition plan.
- e. Meeting all substantial contribution criteria, but only some DNSH criteria would not result in an activity being classified as taxonomy aligned.

¹¹ Explanations of DNSH usability challenges and recommendations to improve the usability of DNSH can be seen in the Platform’s report [‘Platform Recommendations on Data and Usability’](#) report, published in October 2022.

¹² E.g. If an investment is into an existing asset, that asset may not have been required to provide certain information at the time of investment, so will not currently meet specific requirements that may be included in the taxonomy – but may intend to do this during a future refinancing.

Recommendation 2 (3/3)

- 2. HMG should improve the transparency of taxonomy disclosures by adopting an approach to disclosures that would enable companies with activities that are not fully taxonomy aligned, but meet the substantial contribution and some DNSH criteria, to disclose the extent to which they meet the DNSH criteria. This would build on the binary approach seen in the EU Taxonomy⁹. The approach would not consider such activities as taxonomy aligned, but would provide valuable additional information to the market, which the EU system does not currently enable.**
- f. GTAG's view is that the remediation explanation approach is appropriate for existing activities that may not have had to comply with a requirement now listed under DNSH at the time the activity/investment began. For new assets developed post-taxonomy, these should seek to align with all requirements. How to treat this distinction should be included as a question to the market in the Autumn 2023 consultation.
 - g. Clear government messaging on why this decision is being made will be required; the market and wider stakeholders should be offered the opportunity to provide their views on this approach via a formal consultation process. The Autumn 2023 consultation could provide the opportunity to initially outline these plans for DNSH and invite feedback.

Recommendation 3

3. HM Treasury should establish functional design parameters for the drafting of DNSH criteria to improve the consistency and usability of criteria.

- GTAG recommends that HMT define design parameters for DNSH criteria, prioritising the use of international standards and existing ESG data points wherever feasible. HMT should make these design parameters public. This approach will promote consistency and usability of the criteria, and provide guidance for development of future criteria. GTAG recommends that HMT define the following parameters:
 - a. Prioritise quantitative thresholds where possible. In cases where qualitative criteria are used, they should be accompanied by detailed justifications and conditions for alignment. This approach will ensure that users can effectively measure their performance against the thresholds and demonstrate compliance.
 - b. Provide clear references for thresholds and process-based criteria which can be easily sourced. This will enhance the credibility and transparency of the taxonomy.
 - c. Ensure that any process-based testing criteria can be objectively measured with clear, detailed requirements on what a pass entails.
 - d. Eliminate any use of subjective language like “minimise”, “reduce”, etc.
 - e. Eliminate reference to domestic UK legislation where possible, which makes it complex for UK companies with international operations to signal compliance¹³.
 - f. Ensure that criteria strike a balance between being comprehensive enough to provide clarity and guidance without becoming overly complex and difficult to comprehend. Establishing these boundaries will create a consistent approach to enable a better understanding and expectation of DNSH.

¹³ Consistency with international approaches may require HMG to determine whether some form of equivalence is acceptable and the extent to which international standards can be used (if at all) within DNSH criteria for the UK Green Taxonomy. This may be determined by whether DNSH is placed on the statute book, as this will dictate what disclosures can be mandated.

Recommendation 4

- 4. HMT should streamline the EU DNSH criteria, while revising them for the UK context, to improve the usability of DNSH reporting in the UK but also, as a result, the taxonomy as a whole. However, streamlining should not weaken the scientific basis for criteria, or the overall ambition level for the UK Green Taxonomy.**
- a. The UK has onshored the EU taxonomy framework and is currently analysing the EU TSC for appropriateness for the UK. GTAG recommended that the UK should adopt the EU Taxonomy TSC and revise where deemed inappropriate¹⁴. This process presents the opportunity to address many of the issues identified with the EU DNSH criteria, in particular by streamlining.
 - b. The streamlining work done by HMG should leverage the DNSH scorecard analysis¹⁵ developed as part of this GTAG workstream. The lowest scoring criteria should be prioritised for streamlining and revision.
 - c. Given the similarity between DNSH TSC for different activities, similar criteria should be combined and provided in a general annex, with individual DNSH TSC by activity only provided where it is additional and unique. This builds on an already accepted approach within the EU, but expands the approach significantly¹⁶.

¹⁴ GTAG recommended that the government should take the approach of ‘adopt some and revise some’ in its October 2022 paper, [Advice on the development of a UK Green Taxonomy](#).

¹⁵ The scorecard used can be found in Appendix B: Interim Findings Report.

¹⁶ Appendices A-E, found in the European Commission’s [taxonomy regulation climate change mitigation annex](#) are examples of this in the EU taxonomy, which are referenced in 88, 64, 20, 58 and 3 DNSH criteria respectively.

Recommendation 5

5. Guidance to complement DNSH reporting must be produced by a single authority (either HM Government departments or the “institutional home” for the UK Green Taxonomy) to support successful and effective implementation of the UK Green Taxonomy.

- a. A toolkit covering FAQs, guidance and templates for reporting should be produced before the voluntary reporting period begins to ensure the market is supported during this time and understands the value case for participating in the voluntary reporting period.
- b. A stakeholder forum should be established to ensure the government receives timely and direct feedback on usability challenges with the taxonomy during the voluntary reporting period. The forum could assist in developing templates, or testing user guidance.
- c. International mapping between the UK Taxonomy and key taxonomies (as a minimum, this must include the EU Taxonomy) should be conducted and published to support market understanding. The mapping should explain key differences between the UK and the other taxonomies, without going into granular detail for individual activities. The FCA’s recent SDR publication provides a good example of such an approach¹⁷.

¹⁷ See page 82 onwards of the FCA’s [consultation paper](#): Sustainability Disclosure Requirements (SDR) and investment labels.

Recommendation 6

6. The UK should advocate for this new approach to DNSH through bilateral and multilateral discussions and international fora, to put the UK at the forefront of the Green Taxonomy harmonisation debate.

- a. GTAG analysis has found near global adoption of DNSH, with many countries using the EU Taxonomy as a starting point¹⁸. This means that many of the usability issues identified in this report, and the proposed solutions and recommendations, will be relevant in other jurisdictions that are developing green taxonomies.
- b. As set out in GTAG's February 2023 paper '*Promoting the international interoperability of a UK Green Taxonomy*', taxonomies need to be internationally interoperable in order to support the global transition. Ensuring that this is discussed in appropriate discussions and fora is the best way to promote this approach.

¹⁸ Not all taxonomies incorporate the DNSH principle explicitly. For example, Georgia's Taxonomy covers the principle separately under its Sustainable Finance Framework. Indonesia's Taxonomy 1.0 has not given explicit details about DNSH. The Common Ground Taxonomy covers neither DNSH nor Minimum Safeguards in its initial and updated versions. Similarly, Mongolia's Taxonomy makes no mention of these concepts.

Understanding the recommendations

The next section of this report includes **key supporting pages that provide the main evidence underpinning the recommendations made**. However, additional pages can provide further context and supporting evidence.

This table directs towards the most relevant additional pages for each recommendation.

#	Recommendation	Pages to understand rationale
1	Confirm the purpose of, approach to and definition of DNSH	43 , 47 , 111 , 113 , 120
2	Improve transparency of extent to which DNSH criteria are met	41 , 48 , 110 , 111 , 112
3	Establish functional design parameters for the drafting of DNSH TSC	37 , 38 , 39 , 40 , 49 , 126
4	Streamline the EU DNSH criteria to improve the usability of DNSH reporting	37 , 38 , 39 , 40 , 50 , 126
5	Guidance to complement DNSH reporting must be produced by a single authority	37 , 38 , 39 , 41 , 51 , 112 , 126
6	Advocate for this new approach to DNSH through bilateral and multilateral discussions and international fora	37 , 41

Rec #1
Confirm the purpose of, approach to and definition of DNSH



Boxes similar to this appear in the left margin for all pages referenced in this table.

Key Supporting Pages

The following pages are drawn from later sections of the report (and accompanying appendices) to highlight key supporting evidence and rationale underpinning GTAG's recommendations

This workstream identified opportunities to streamline and increase the usability of DNSH in the UK Green Taxonomy

Do No Significant Harm (DNSH) criteria in the EU Taxonomy as currently drafted are considered a particularly challenging aspect for end users to understand, align against and disclose compliance with. This project was designed to analyse DNSH criteria to identify ways that they can be streamlined and made more usable for use in the UK Green Taxonomy. This analysis incorporated a detailed review of DNSH criteria, discussions with end users and strategic stakeholders, and learnings from other jurisdictions. An overview of project context, objectives and scope is below.

STRATEGIC CONTEXT

Implementing a useful and usable UK Green Taxonomy that provides reliable information to the market, redirects capital towards activities supporting the UK’s transition to net zero, and delivers on the UK’s environmental objectives forms a critical part of the Green Finance Strategy.

The UK has onshored the majority of the EU Taxonomy Regulation, which sets out the high-level design features of the Taxonomy in the UK. However, the Delegated Acts that include the technical screening criteria (TSC) for substantial contribution (SC) and DNSH criteria have not been onshored as they were introduced following the UK’s exit from the European Union. **This provides an opportunity to learn from challenges faced by the EU to develop a conceptualisation of DNSH that is usable, useful, robust and internationally interoperable.**

OBJECTIVES

A streamlining and increasing the usability of DNSH will support the UK in achieving the objectives set out in the Green Finance Strategy.

Key success factors include:

- ✓ Fundamental principle of DNSH is understood by the market.
- ✓ DNSH criteria can be understood, measured, and evidenced.
- ✓ DNSH criteria are robust, science-based, logical and rooted in best practice.

APPROACH

Phase 1: Research

Analysis of EU Taxonomy DNSH criteria against a fit-for-purpose scorecard to determine opportunities.

Review of broader usability concerns with DNSH criteria in the EU Taxonomy.

Review of international context to identify learnings and international considerations.

Stakeholder consultations to iterate findings on more strategic design considerations related to DNSH.

Focus groups with key end user cohorts to test initial thinking and understand sectoral priorities.

High-level survey targeted at industry participants to provide further insight on sectoral nuance related to DNSH.

Insight synthesis workshops with key stakeholders.

Phase 3: Deliver

Delivery of the Final Report and presentation setting out key findings for usable DNSH criteria in the UK Green Taxonomy.

A review of EU DNSH criteria, broader research, and market testing highlighted five key DNSH challenges

Challenges with DNSH

Five key challenges for end users were identified through this work, spanning two categories: challenges relating directly to individual DNSH criteria, and those relating to the overall DNSH design component of the taxonomy.

█ Individual Criteria
 █ Overall DNSH design

	Too hard to understand
	Too hard to measure
	Too hard to evidence
	Inconsistent structure
	Inflexible disclosure

Implications for DNSH

These challenges have **multiple implications** for the **usability of DNSH** and the ability to **comply with DNSH** requirements.

- Data requirements, availability and robustness is a significant challenge.
- Applying DNSH criteria across multiple jurisdictions is challenging, impeding international interoperability.
- End-users have inconsistent approaches and interpretations as to what constitutes compliance with DNSH criteria.
- Compliance with DNSH criteria is manual and resource-intensive.
- Lack of comparability and consistency of disclosures across and within organisations.
- Reporting DNSH across multiple entities is difficult due to disparity and complexity (e.g. across sectors, objectives, activities).

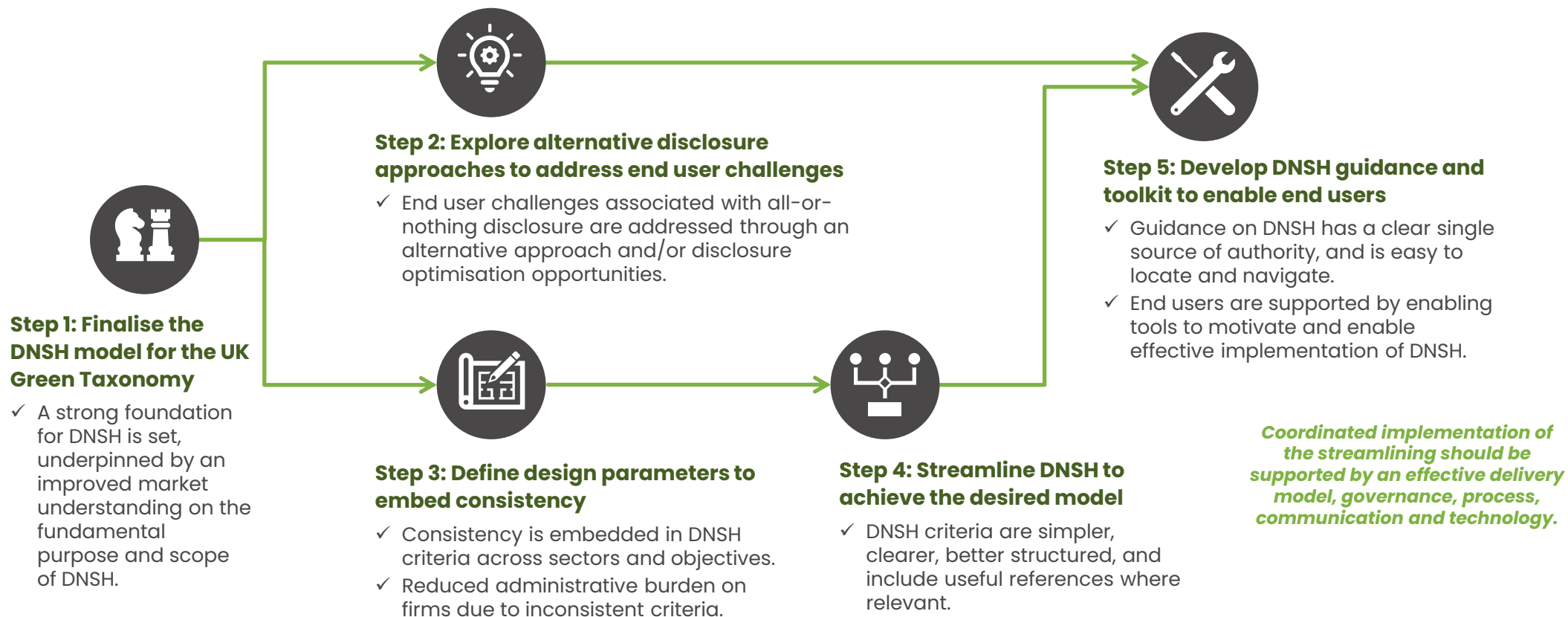
Impact on Taxonomy

These DNSH implications have the potential to impact the **broader taxonomy**, and its **ability to meet its overall objectives**.






- Increased **concern over greenwashing** and **lack of confidence in the reported information** due to unreliable data, inconsistent application, methodologies, or thresholds, and subjectivity of DNSH requirements for alignment disclosure.
- Low alignment with the Taxonomy** due to DNSH challenges **reduces the efficacy of the taxonomy** in directing capital towards net zero-aligned investments and providing sustainability information to the market, including valuable information on other Taxonomy components, e.g. substantial contribution alignment.
- Taxonomy used **only for regulatory reporting** due to difficulty using and applying DNSH, resulting potentially in **inconsistent classifications of activities** within a firm and **not used as a decision-making tool for green and transition investments**.

A roadmap has been developed to support the design of a streamlined & usable DNSH principle for the UK

Detailed review and synthesis of the key findings, challenges and opportunities identified throughout all stages of this workstream have highlighted five key areas of opportunities relating to DNSH as set out in the roadmap below. To support an efficient and evidence-based approach to streamlining DNSH criteria, these key themes have been arranged as five practical steps to support the objective of streamlining and increasing the usability of DNSH criteria for the UK Green Taxonomy.



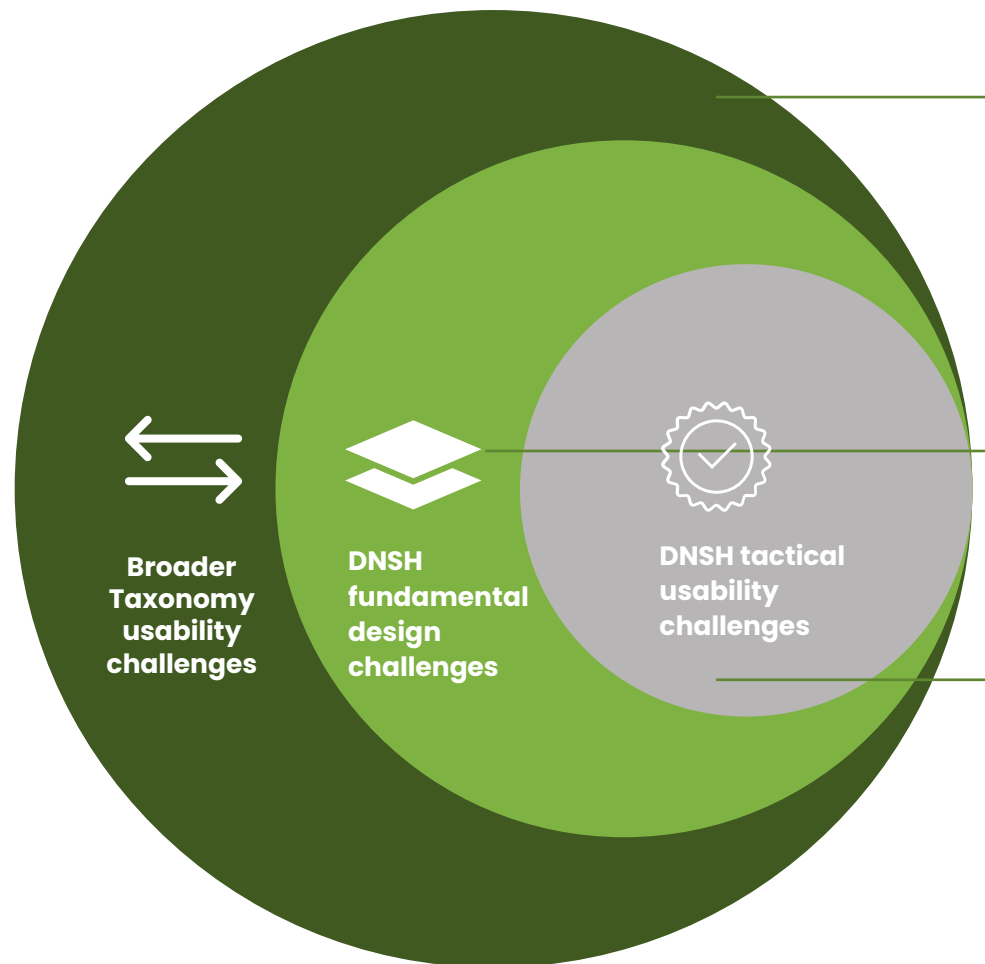
The practical steps and supporting considerations have a clear connection to the key opportunities identified throughout this workstream

Five key steps to streamline DNSH	 Step 1: Model	 Step 2: Disclosure	 Step 3: Design	 Step 4: Streamline	 Step 5: Enable
Objectives <i>The five steps set out the roadmap to streamline DNSH.</i>	Finalise the model of DNSH criteria for the UK Green taxonomy and define the field of play	Agree the fundamental approach to disclosure and consider disclosure optimisation opportunities	Align on indicative design parameters to inform streamlining approach and embed governance to ensure consistency	Implement opportunities to streamline and increase the usability of DNSH criteria	Develop DNSH guidance, toolkit, and supporting infrastructure to enable and encourage effective use of DNSH
Key considerations <i>Each step of the streamlining journey offers a range of considerations and opportunities. Some can be used in tandem for a more impactful outcome.</i>	Following confirmation of fundamental DNSH model (i.e. activities-based & adopt some, revise some) define DNSH field of play: <ul style="list-style-type: none"> • <u>Scope</u> of DNSH • <u>Definitions</u>, e.g. risk, significant, materiality • <u>Data</u>, e.g. proxies, gaps, interoperability • <u>Market readiness</u> • <u>Interfaces</u>, e.g. broader reporting, indicators This should be set out in the Autumn 2023 consultation to provide clarity to the market.	Determine whether to retain the ‘all or nothing’ approach to DNSH disclosure or adopt a risk-based approach. Analyse if disclosure enablers are suitable in the UK context, e.g: <ul style="list-style-type: none"> • Disclosure ‘<u>gates</u>’ • <u>Disaggregated</u> disclosure • <u>Traffic light</u> system • Risk-based <u>due diligence</u> disclosure • <u>Comply or explain</u> 	Narrow the bookends of variability in DNSH criteria and align on indicative thresholds for key factors: <ul style="list-style-type: none"> • <u>Length</u> of DNSH criteria • <u>Prescriptiveness</u> of DNSH criteria • <u>Context</u> provided for each criterion • <u>Granularity</u> of data points required • <u>Interoperability</u> of DNSH criteria 	Select and operationalise streamlining exercise by leveraging EU Mapping analysis : <ul style="list-style-type: none"> • <u>Gap analysis</u> of EU DNSH criteria against design parameters • <u>Condense</u> similar criteria • Simplify <u>structure</u> • Simplify <u>language</u> and remove <u>EU legislation</u> • Strengthen <u>references</u> 	Agree principles to shape the scope of guidance: <ul style="list-style-type: none"> • <u>Easy to locate</u> • <u>Single authority</u> • <u>Current and dynamic</u> • <u>Easy to understand</u> Iterate and finalise a scope of guidance & enabling tools, e.g.: <ul style="list-style-type: none"> • <u>Templates and tools</u> • <u>FAQs & knowledge hub</u> • Centralised <u>portal</u>

The key steps, considerations and opportunities set out in this roadmap provide a clear and practical reference point to support the development and implementation of a streamlined and usable set of DNSH criteria for the UK Green Taxonomy and are supported by the recommendations set out in this report.

Unpacking the layers of Taxonomy challenges

This section unpacks the different layers of Taxonomy challenges, which are classified into three layers based on usability concerns: **Broader Taxonomy usability challenges**, **DNSH fundamental design challenges** and **DNSH tactical usability challenges**.



Broader Taxonomy usability challenges

This set of challenges relates to wider taxonomy challenges linked to DNSH criteria; and wider EU taxonomy challenges such as Substantial Contribution Technical Screening criteria, and minimum social safeguards. Due to limited scoping, challenges with respect to minimum social safeguards are covered in this section.

DNSH fundamental design challenges

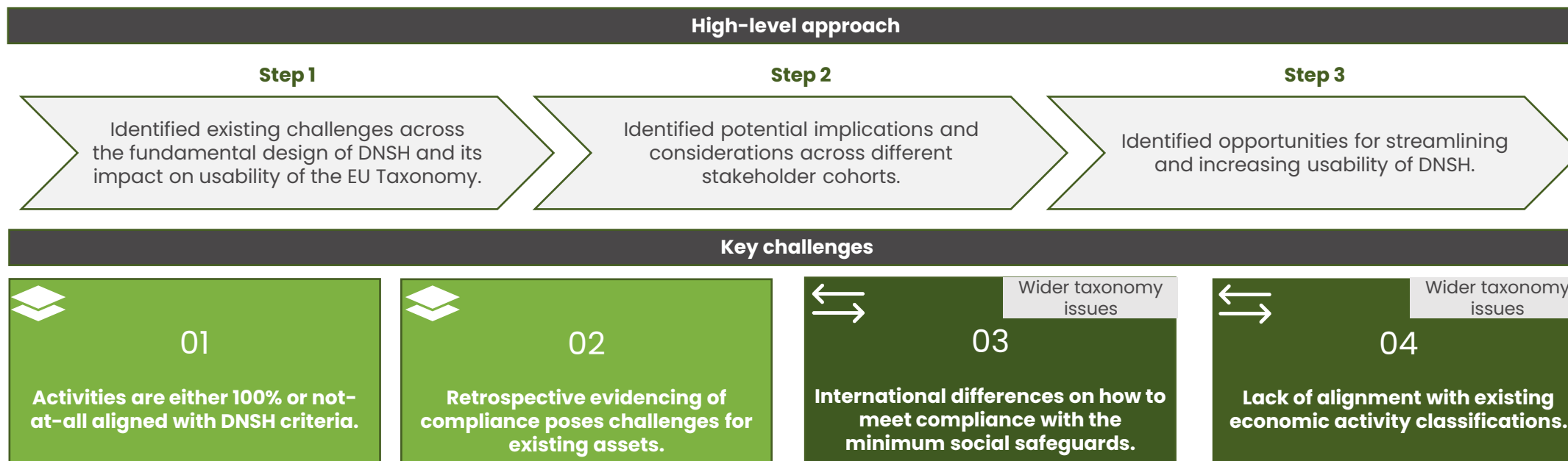
This set of challenges aim to identify concerns impacting usability with regards to the DNSH fundamental design. This section will focus on building on the more tactical usability challenges specific to DNSH identified in Phase 1.

DNSH tactical usability challenges

This set of challenges identifies important tactical usability issues with respect to DNSH application. These are covered in detail as a part of Phase 1.

Overview of approach & key findings of the broader usability research

The objective of this research is to identify key challenges impacting usability with regards to the broader fundamental design of the DNSH and minimum social safeguards. The challenges with respect to DNSH are building on the more tactical usability challenges specific to DNSH identified in Phase 1. This chapter sets out key insights against the four key challenges identified through desktop research.



Notably, the **desktop review reaffirmed the DNSH usability challenges identified as part of Phase 1** – echoing that there is significant opportunity to streamline and increase the usability of DNSH criteria. In many cases, **DNSH usability challenges compound or enable the effects of the broader EU Taxonomy challenges** set out on page 32-40. For example – the ability of end users to demonstrate 100% alignment with EU Taxonomy is significantly impaired by usability challenges associated with DNSH criteria being too hard to measure, comply with, and evidence.



Key challenge: Activities are either 100% or not-at-all aligned with DNSH criteria

Would a risk-based approach to DNSH disclosures increase usability by enabling a more nuanced view of alignment with the objectives of the UK Taxonomy?



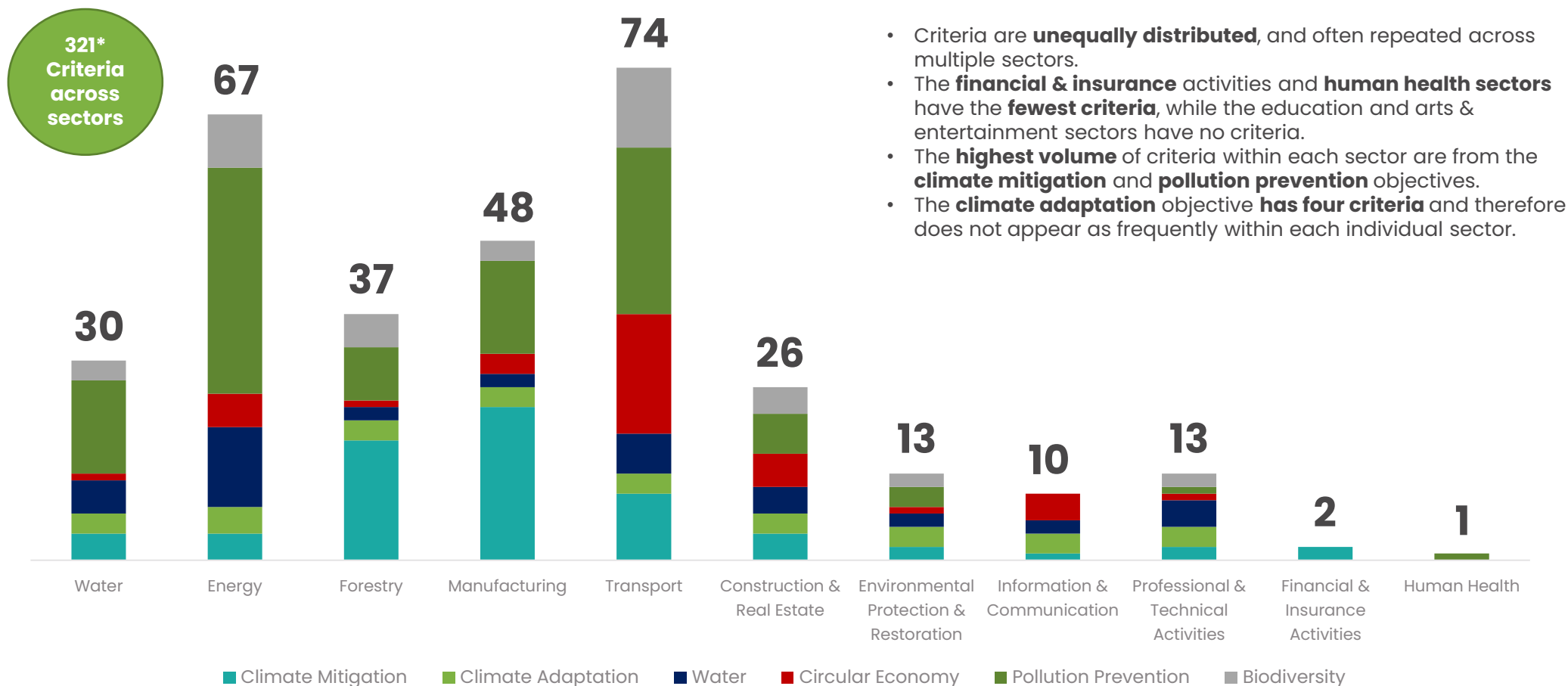
The 'all or nothing' approach to DNSH criteria disclosure, whereby failing to demonstrate compliance with one DNSH criteria means no alignment can be claimed, risks reducing the transparency of taxonomy reporting, denying useful information to the market.

<p>Challenge:</p> <p>The current design of the EU Green Taxonomy is underpinned by an 'all or nothing' approach to alignment – by failing to demonstrate compliance with an element of TSC (substantial contribution, DNSH, MSS), a company is unable to disclose if it aligned to the SC component and how many DNSH components it met. Although GTAG agrees it is correct that this activity cannot be classed as taxonomy-aligned, it still leads to valuable information being lost to market.</p> <p>The ability of end users to demonstrate alignment is impaired by a number of factors that can exist alone or in combination:</p> <ul style="list-style-type: none"> • Lack of capacity and capability to interpret stringent DNSH criteria requirements • Lack of data availability to evidence alignment • Only partial alignment with DNSH criteria 	<p>Potential Implications:</p> <ul style="list-style-type: none"> • Low taxonomy alignment due to a lack of sufficient data to evidence compliance to DNSH. • Misdirected capital flows where binary compliance design prevents nuanced visibility over firm performance. • Stifled innovation in activities that align with SC TSCs but not with DNSH criteria. This is often due to limited sectoral/value chain information and lack of appropriate methods for developing thresholds on critical emerging technologies. • Inconsistent and incomparable disclosures driven by a lack of available data – prompting end users to use estimates, bespoke methodologies, and develop views on 'equivalent information' • Difficult to verify and regulate as different third-party data providers providing different outcomes due to variability in databases and methodologies adopted to assess compliance. • Increased market-anxiety related to real or perceived accusations of greenwashing where taxonomy alignment is claimed. 	<p>Considerations for the UK:</p> <p>Review current approach to DNSH disclosure:</p> <ul style="list-style-type: none"> • Consider limiting the binary nature of the tests – including assessing the feasibility of: disaggregated taxonomy disclosure; and a proportionate risk-based due diligence approach; or a 'comply or explain' DNSH approach. • Consider if/where flexibility on disclosure requirements may be required (e.g. where sufficient methodologies have not been developed, where projects are innovative or complex, etc.). <p>Should an alternative approach be adopted, prepare robust and pragmatic guidance for:</p> <ul style="list-style-type: none"> • Usage of third party data and estimates in disclosure to promote consistent reporting • End user disclosure requirements (noting a optimised and phased out approach should go some way in addressing need)
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Sources: The taxing test of the EU Taxonomy <https://www.invesco.com/emea/en/insights/the-taxing-test-of-the-eu-taxonomy.html>; Platform's usability recommendations https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf; *Ensuring the usability of EU Taxonomy <https://www.icmagroup.org/assets/GreenSocialSustainabilityDb/Ensuring-the-Usability-of-the-EU-Taxonomy-and-Ensuring-the-Usability-of-the-EU-Taxonomy-February-2022.pdf>

DNSH criteria are unevenly distributed across sectors

Analysis across the 11 sectors with DNSH criteria reveals a significant difference in the number of relevant DNSH criteria, and differing splits within each individual objective.



- Criteria are **unequally distributed**, and often repeated across multiple sectors.
- The **financial & insurance** activities and **human health sectors** have the **fewest criteria**, while the education and arts & entertainment sectors have no criteria.
- The **highest volume** of criteria within each sector are from the **climate mitigation** and **pollution prevention** objectives.
- The **climate adaptation** objective **has four criteria** and therefore does not appear as frequently within each individual sector.

*Across all objectives with each criteria counted once, there is a total of 254 criteria, while across all sectors there are 321 criteria. This is due to the fact that some criteria are included across multiple sectors. – e.g. AI within the climate adaptation objective is repeated across 9 different sectors.

Key findings from International Review

01

The purpose and use cases of DNSH vary based on overall taxonomy objective with some serving as financial institution guidance while others forming the basis of an entire ecosystem of disclosures, regulations, and schemes

02

Risk-based approaches to disclosing alignment with DNSH provide greater visibility over DNSH and consequent levels of ambition

03

DNSH is widely observed as a necessary requirement for taxonomy alignment, with most requiring some form of DNSH compliance to evidence alignment

04

Other approaches have been taken, such as DNSH involving prerequisite compliance with international standards as a 'gate'

05

Jurisdictions have had success in simplifying the EU DNSH by removing repetition & reducing the number and length of criteria – allowing for easier collection and reporting of data

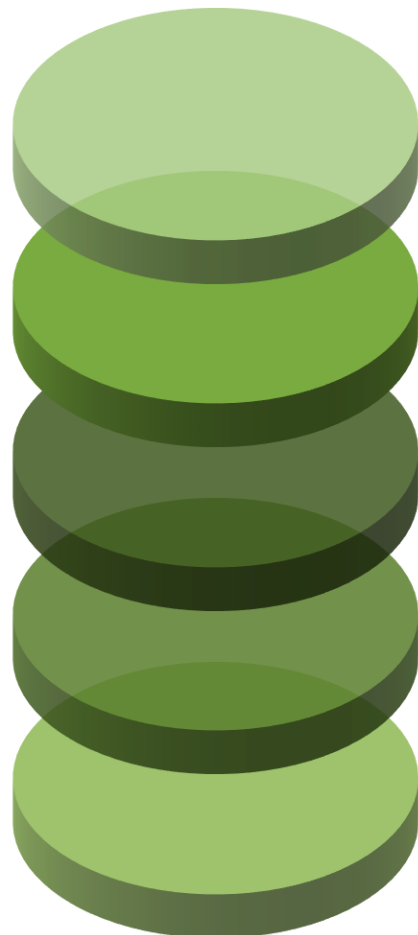
Note: * DNSH is a broad term used to encompass DNSH criteria, and DNSH principles throughout the International research section. They are specifically defined with context to avoid confusion. For example: "High-level DNSH principles" and "Granular DNSH-criteria".

A review of international approaches to DNSH has identified key areas of differentiation

Five key areas of differentiation have been identified, which are specific to a DNSH lens but applicable to taxonomies at-large.

Do No Significant Harm (DNSH) criteria are a key part of most Green Taxonomies. They are designed to ensure that an activity that meets the requirements of SC TSCs to one environmental goal does not act to the detriment of another.

We have considered five variables that affect the design of each taxonomy's DNSH criteria, and used these factors to investigate DNSH criteria across a range of international jurisdictions.



01

How complex are DNSH criteria?

DNSH can have differing types of designs. This changes their detail, legislative links or robustness.

02

Is DNSH required for taxonomy alignment?

Some jurisdictions require complete adherence with every aspect of DNSH criteria but others treat DNSH as a risk-assessment transparency tool.

03

What are the disclosure requirements for reporting against DNSH?

Reporting against taxonomies can be either mandatory or voluntary. In both instances, entities may also be required to report DNSH information on either a voluntary or mandatory basis, as detailed on the next page. In general, where DNSH forms part of the taxonomy, market participants will need to report against them to comply with the taxonomy requirements.

04

How Internationally interoperable are DNSH criteria?

DNSH criteria vary in their interoperability – with some tailored primarily to domestic regulation, and others using a variety of international standards. Many regimes use a combination of the two.

05

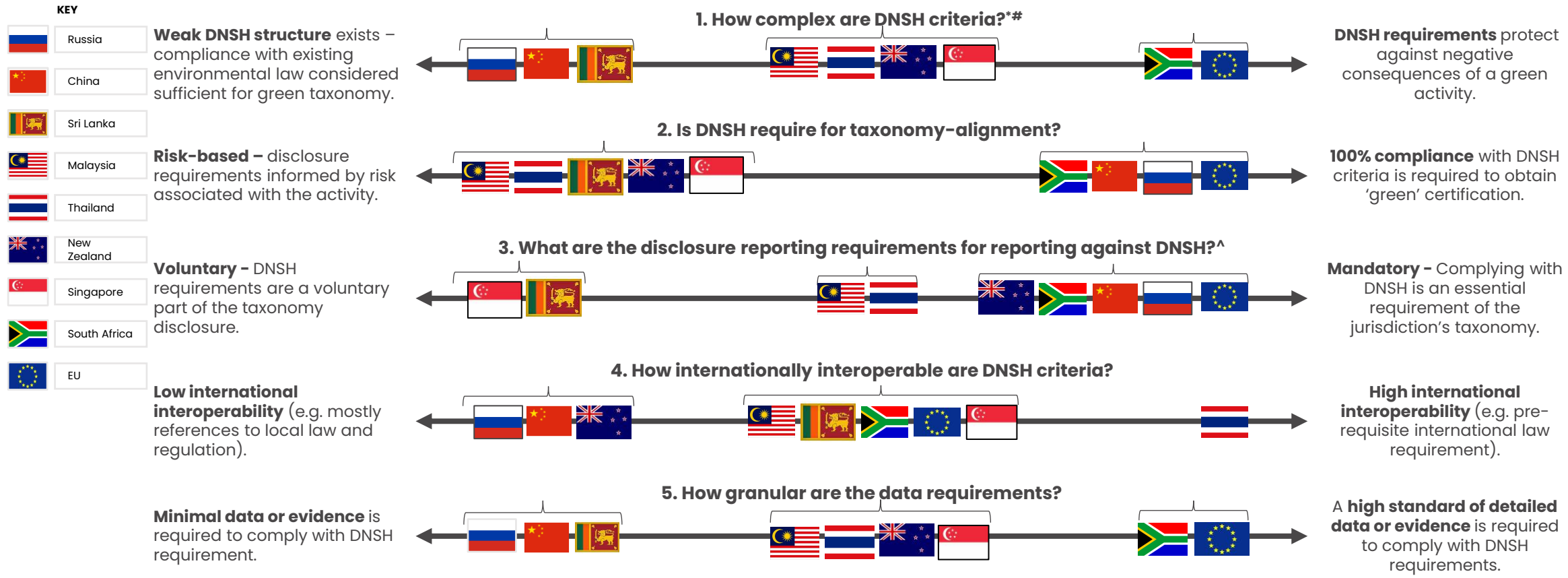
How granular are the data requirements?*

The data requirements for DNSH compliance vary considerably – with some requiring particularly granular activity data and others relying on compliance against conceptual frameworks.

Note: *DNSH in this report are split into two types: **Principles-based and Thresholds-based**. The former is a high-level and descriptive type of criteria which highlights approaches and ways of thinking with regards to harm done to environmental objectives. The latter is more driven by quantitative limits and process-based indicators that are based on scientific data and other national/international laws.

High-level comparative analysis of international approaches to DNSH

Taxonomies around the world have attempted to design DNSH in different ways – for example, the EU has chosen a compliance approach, whereas Malaysia has taken a risk-based approach, using transparency to drive outcomes. Below we have conducted a **relative assessment for different applications of DNSH** from a range of taxonomies against the bookends of variability of the factors affecting their design (**see Appendix A for more detail**).



Note: *Russia is a unique consideration in this case study as it does not contain any DNSH criteria. There are several ways of interpreting its interoperability and we have chosen to view it as an all-or-nothing approach. This is subject to differences in interpretation – the content above is simply indicative.
 #The bracket symbols used above are indicative of jurisdictions that are represent the same level on the spectrum and are placed together for ease in representation.
 ^The jurisdictions in the middle of the spectrum are those where taxonomy reporting is voluntary but the use of DNSH criteria within the alignment process is integrated as necessary for identifying position on a RAG scale.

Summary of Key Findings from Market Testing Consultations

01

Due to DNSH usability issues, most firms spoken to do not currently use the taxonomy for decision-making.

Entities reported multiple use-cases for the taxonomy. However, due to usability issues relating to the DNSH, most stakeholders reported not using the taxonomy in determining how to direct capital more sustainably.

02

Most firms struggle with disclosure against DNSH due to data availability*.

Many end users didn't have access to the data required to meet DNSH criteria due to their granularity and lack of alignment with existing frameworks and their data requirements. This results not only in lack of data, but lower quality of and confidence as well.

03

The binary all-or-nothing approach to disclosure against DNSH criteria is driving low taxonomy alignment.

Many end users reported low alignment with the taxonomy due to the DNSH approach, and would benefit from a risk-based comply and explain approach.

04

Stakeholders have divergent views on what constitutes 'significant harm'.

Many stakeholders felt that some DNSH requirements may not be significant enough to prevent an activity from being considered green. An approach incorporating the materiality of risks would be preferred.

05

Stakeholders are split on whether DNSH should be activity-based or principles-based.

Activity-based DNSH, following the EU's approach are more stringent. A principles-based approach will allow for increased compliance for end users, however runs a risk relating to greenwashing, hence the market was split on this point.

* A future GTAG publication will cover advice on data gaps.

Evidence for each key finding

The below points represent anecdotal evidence from case study discussions with stakeholders.

01

Taxonomy Use-Cases due to DNSH

The three main use cases for the taxonomy identified are as follows:

- **Mandatory Reporting**

Many entities use the EU taxonomy solely when it is mandatory for them as opposed to as a tool for investor-decision making.

- **Voluntary Reporting**

Fewer entities report voluntarily. In these cases, reported alignment is often very low. Entities will also often choose to adapt certain aspects to their specific usability needs.

- **Bespoke Internal Taxonomies**

Some entities use the EU taxonomy as a baseline and have produced their own taxonomy for internal use, tailored to their own needs.

02

Data Availability to meet DNSH criteria

Context: A multinational defence company considering future reporting requirements

Situation: The company reported 'consistency with existing reporting to be the most useful aspect to consider'. While they reported concerns in relation to the complexity of the requirements; they reported alignment with other frameworks as the most important consideration.

Impact: The company explained that 'different ways of measuring and reporting will make compliance very difficult' and 'duplication takes time and effort'.

03

All Or Nothing Approach to DNSH

Context: Portfolio manager within a global investment company

Situation: The portfolio comprises of predominantly Article 8 and 9 funds, reported an estimated 80% alignment with the taxonomy based only on substantial contribution criteria. However, due to the complexity of the DNSH criteria and the requirement to meet every one, their actual alignment was reduced to 0%.

Impact: While their investors are aware of the funds and where they stand from a sustainability perspective, taxonomy-related disclosure is not helpful.

04

Defining what constitutes 'Significant Harm'

Context: An asset manager reporting taxonomy alignment.

Situation: To align with the DNSH criteria for one of its funds, the investor would need to prove one of their investment activities doesn't exceed a certain decibel level in relation to passing trains.

Impact: The stakeholder's main thought in relation to this is that every company causes a certain level of harm in some aspect, at what point is the line of 'significance' drawn, and at what point is a data point too granular?

05

Principles-Based vs Activity-Based DNSH

'We don't want effort to go into things that are marginal, as a principle - it should be considered near enough or close enough if it supports the overall policy objective.'

- *Environmental Regulator*

'Having guidance and a principle-based approach would be so helpful.'

- *Asset Manager*

Key DNSH Usability Challenges

A review of EU DNSH criteria, broader research, and market testing highlighted five key DNSH challenges

Challenges with DNSH

Five key challenges for end users were identified through this work, spanning two categories: challenges relating directly to individual DNSH criteria, and those relating to the overall DNSH design component of the taxonomy.

█ Individual Criteria
 █ Overall DNSH design

	Too hard to understand
	Too hard to measure
	Too hard to evidence
	Inconsistent structure
	Inflexible disclosure

Implications for DNSH

These challenges have **multiple implications** for the **usability of DNSH** and the ability to **comply with DNSH** requirements.

- Data requirements, availability and robustness is a significant challenge.
- Applying DNSH criteria across multiple jurisdictions is challenging, impeding international interoperability.
- End-users have inconsistent approaches and interpretations as to what constitutes compliance with DNSH criteria.
- Compliance with DNSH criteria is manual and resource-intensive.
- Lack of comparability and consistency of disclosures across and within organisations.
- Reporting DNSH across multiple entities is difficult due to disparity and complexity (e.g. across sectors, objectives, activities).

Impact on Taxonomy

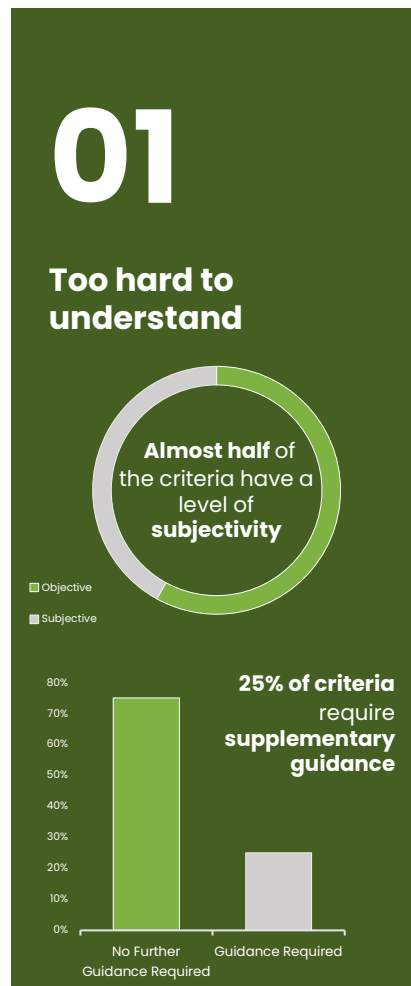
These DNSH implications have the potential to impact the **broader taxonomy**, and its **ability to meet its overall objectives**.

- Increased **concern over greenwashing** and **lack of confidence in the reported information** due to unreliable data, inconsistent application, methodologies, or thresholds, and subjectivity of DNSH requirements for alignment disclosure.
- Low alignment with the Taxonomy** due to DNSH challenges **reduces the efficacy of the taxonomy** in directing capital towards net zero-aligned investments and providing sustainability information to the market, including valuable information on other Taxonomy components, e.g. substantial contribution alignment.
- Taxonomy used **only for regulatory reporting** due to difficulty using and applying DNSH, resulting potentially in **inconsistent classifications of activities** within a firm and **not used as a decision-making tool for green and transition investments**.

DNSH criteria challenges

“Lack of comparability in DNSH results comes from the sheer complexity of the system. Complexity is the enemy of good reporting, due to all kinds of interpretation and differences.”
 – Energy and Natural Resources Multinational

- Rec #1**
 Confirm the purpose of, approach to and definition of DNSH
- Rec #2**
 Improve transparency of extent to which DNSH criteria are met
- Rec #3**
 Establish functional design parameters for drafting DNSH TSC
- Rec #4**
 Streamline EU DNSH TSC to improve usability
- Rec #5**
 Guidance to complement DNSH reporting
- Rec #6**
 Advocate for new approach internationally



Summary

- DNSH criteria are difficult to understand due to their complexity, ambiguity, unclear language and the variety of standards they refer to.**
- **Ambiguity of criteria** is a significant challenge for users of DNSH criteria. A quarter of all criteria require supplementary guidance.
 - **Navigation and interpretation of multiple standards** amplify issues relating to understanding the criteria. This can be even more problematic for entities operating across multiple jurisdictions.
 - **Many criteria reference only EU legislation or require identification of local requirements.** Only 20% of criteria reference international standards or EU regulations with corresponding equivalents, making them harder to understand.
 - In many cases, difficulties in understanding DNSH criteria are **amplified by subsequent difficulties in understanding and navigating references to EU regulation and standards**, which are not written for easy use and implementation for corporates at present.

This challenge reduces confidence in disclosures against DNSH criteria, causes inconsistencies in reporting and reduces the international interoperability of criteria.

- **Entities require a large resource** to go through individual criteria, interpret them and determine which standards to use or what is required.
- **Confidence in reporting is reduced** due to the ambiguity of criteria and varying interpretations of DNSH criteria.
- Multinationals experience significant difficulties in using DNSH criteria, as the various standards referenced can cause **inconsistencies across their portfolios.**

What we've seen

- Example EU DNSH criteria**
- **A2-1.1:** Forest management plan (>10 years) in accordance with national law.
 - **A2-1.1:** Identify and address environmental degradation risks related to preserving water quality and avoiding water stress.
- Insights from other jurisdictions**
- DNSH principles in Thailand provide high-level requirements for activities making it less complex and easy to interpret.
 - In Malaysia, DNSH principles provide description of actions reducing complexity for the reporting entities.

What we've heard

Context: An oil and gas major with multi-jurisdictional assets reporting taxonomy alignment.

Situation: The company had significant difficulty in applying taxonomy standards in the correct context for specific assets. Not only did the company report issues in relation to implementing EU directives, but they were unsure on the application of national laws and issues any deviations from the original legislations quoted could cause.

Impact: A larger resource required for the entity to navigate all the required standards, as well as a lack of comparability in disclosures against other market leaders.

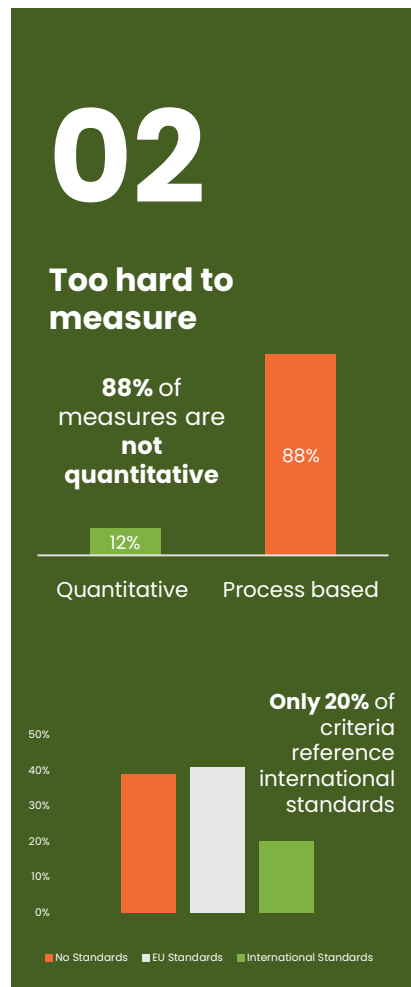
DNSH criteria challenges



'Qualitative requirements are a big issue, as each company has to reinvent the wheel.'

- Environmental Regulator

- Rec #1**
 Confirm the purpose of, approach to and definition of DNSH
- Rec #2**
 Improve transparency of extent to which DNSH criteria are met
- Rec #3**
 Establish functional design parameters for drafting DNSH TSC
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 Advocate for new approach internationally



Summary

Many DNSH criteria are difficult to measure – this is due to their qualitative nature, the lack of thresholds and subjectivity, leading to a reliance on estimates and proxies.

- Across all objectives, 88% are qualitative.** This leads to entities adopting varying methodologies to measure the same criteria, and spending significant resources trying to determine approaches to use.
- Of criteria that are **quantitative, 72% do not reference standards**, making measurement more difficult and reduces trust from end users in the criteria.
- Ability to measure the criteria is hindered by their subjectivity** – almost half of all criteria have a level of subjectivity. This causes inconsistencies in reporting due to varied interpretations of criteria, and erodes credibility of taxonomy disclosures.
- Where data on DNSH is lacking, there is an **increased reliance on proxies, and development of bespoke methodologies, and use of equivalent information**, etc. are employed to measure alignment. This create difficulties related to comparability and verification.

Difficulty in measurement leads to a lack of comparability across reporting entities, as well as inconsistencies due to differing interpretations and methodologies adopted.

- The **resource required by companies to report alignment with DNSH is increased** due to the adaptation of and research into various methodologies for measurement.
- Subjectivity of criteria can lead not only to **inconsistencies** relating to reporting, but also a **lack of confidence** in disclosures and concerns over **greenwashing**.

What we've seen

Example DNSH criteria

- A2-1.2:** Do not result in a significant reduction of sustainable supply of primary forest biomass suitable for the manufacturing of wood products with long-term circularity potential.
- E37.00, F42.99 – 5.3:** Mitigate storm water overflows.

Insights from other jurisdictions

- The Malaysian DNSH criteria includes a list of international standards that can be used for external verification on taxonomy and DNSH claims. While this still requires users to collect relevant data, it provides a useful guide for the extent of data collection and accepted evidence.

What we've heard

Context: Multinational investment firm considering taxonomy alignment and disclosure.

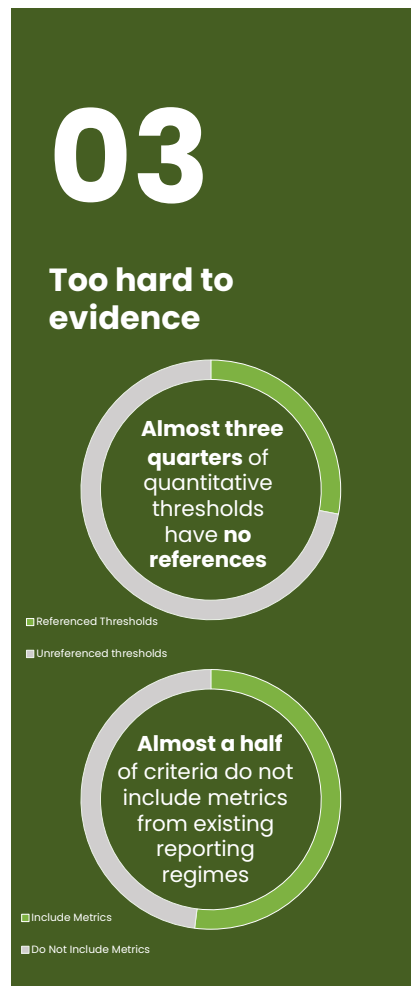
Situation: The firm has had major challenges in relation to their data coverage and quality due to the nature of criteria. Therefore, they have considered the use of data providers. However, data from third party data providers were found to be inconsistent and poor in quality.

Impact: Lack of confidence in DNSH alignment for the firm, and lack of transparency for any investors. Ultimately the firm provided no taxonomy disclosure.

DNSH criteria challenges

“When investors are saying it’s difficult for us to comply (with DNSH), it’s because of the lack of data.”
 – Financial Regulator

- Rec #1**
 Confirm the purpose of, approach to and definition of DNSH
- Rec #2**
 Improve transparency of extent to which DNSH criteria are met
- Rec #3**
 Establish functional design parameters for drafting DNSH TSC
- Rec #4**
 Streamline EU DNSH TSC to improve usability
- Rec #5**
 Guidance to complement DNSH reporting
- Rec #6**
 Advocate for new approach internationally



Summary

Evidencing and complying with DNSH criteria is difficult due to their volume and granularity which cause data availability issues and a need for estimates.

- Across all objectives, there are **254 criteria***, resulting in a **significant resource** required by reporting entities to obtain all the data points for compliance.
- Datapoints are **often very niche** and **not collected at present**, therefore requiring a few reporting cycles to obtain. This is even more of a problem for SMEs.
- Larger entities often have a **reliance on the estimations of third party providers** due to the number of investments to be accounted for. These were reported as highly inconsistent, **reducing overall confidence** in taxonomy alignment disclosure.

This challenge means that companies report low alignment with DNSH criteria, and there are inconsistencies across reporting entities.

- **Data coverage and quality are reduced** resulting in **lowered confidence** in the disclosure.
- Overall **lack of comparability across reporting entities**, as varying levels of data availability and data confidence leads to **significant inconsistencies**.
- **Entities’ alignment against DNSH criteria is very low** due to a lack of datapoints to evidence compliance.

What we’ve seen

Example DNSH criteria

- End users experienced difficulties in reporting against climate change adaptation DNSH criteria due to data availability*

Insights from other jurisdictions

- The Thai and Malaysian DNSH criteria both follow a principles-based approach, and therefore do not include specific data thresholds for DNSH compliance.
- The Malaysian taxonomy encourages reporting entities to use existing activity-level information and/or proxies such as ESG ratings and sustainability benchmarks.

What we’ve heard

Context: An asset manager reporting taxonomy alignment.

Situation: To align with DNSH criteria for one of its funds, the investor would need to prove one of their investment activities doesn’t exceed a certain decibel level in relation to passing trains.

Impact: The investor was unable to comply with the criteria due to the granularity of the data point resulting in low data availability. Their response was to question how many of DNSH criteria data points are considered ‘significant’ considering their granularity and specificity.

* Sources: *EU Taxonomy Study – Evaluating the market readiness of the EU Taxonomy criteria for buildings https://www.cpea.eu/wp-content/uploads/2021/04/210325_EU_Taxonomy-Study.pdf

*As all criteria are unique to their objective while some are included across multiple sectors, the total number of criteria across objectives differs to the total number across sectors..

DNSH design challenges

“The DNSH focus is very binary. You go through the whole process, get all the data, match it against thresholds etc. and you’re either aligned or not. For example, if there are 10 criteria, and you pass 9, it’s a shame.

- Multinational Bank

05

Inflexible disclosure

“As investors we would want to know what % of their business was actually aligned with substantial contribution objectives vs the bits they had to fail because of DNSH.”

- Asset Manager

“We would prefer more risk-based approach similar to a due diligence”.

- Asset Manager

Summary

The EU DNSH follows an all-or-nothing approach to disclosure. Following this method, not meeting all DNSH criteria means an entity is not aligned to the EU Taxonomy, even if all substantial contribution TSCs and Minimum Social Safeguards (MSS) requirements are met. This causes challenges relating to the maturity of the market and a lack of available data.

- **Lack of data to evidence DNSH** makes the all-or-nothing approach a major usability challenge for reporting entities.
- **Low market readiness** furthers the challenge, and reduces overall visibility of market performance.
- The combination of low market readiness and lack of data evidence prompts **end users to use estimates, bespoke methodologies, and develop views** on ‘equivalent information’ to address data gaps.

Entities with predominantly green portfolios (e.g., Article 9 SFDR) that should theoretically have a high level of alignment and have a high level of eligibility, end up having very low actual alignment %s due to DNSH.

- **Low alignment of taxonomy** for the majority of reporting entities, underpinned by a lack of sufficiently granular DNSH data to evidence compliance.
- **Entities are often less likely to voluntarily disclose their taxonomy alignment**, given that the impact from the DNSH approach is a hugely reduced percentage alignment.
- **Misdirected capital flows** because of the binary compliance design not enabling nuanced visibility over firm performance.
- **Stifled innovation** often due to limited sectoral/value chain scope and lack of appropriate methods, thresholds for critical emerging technologies.
- **Data is hard to access** where the disclosure requirements often involve technical detail and esoteric language.

What we’ve seen

Broader usability impacts

- **Increased market anxiety** related to real or perceived accusations of greenwashing where taxonomy alignment is claimed.
- **Lack of capacity and capability** to interpret stringent DNSH criteria requirements.

Insights from other jurisdictions

The Malaysian taxonomy uses a RAG scale, and allows for disclosing entities to support claims with remedial plans for managing DNSH risks in cases they are not yet green. This risk-based approach provides an example of a more flexible option for disclosure.

What we’ve heard

Context: Portfolio manager within a global investment company.

Situation: The portfolio comprises of predominantly Article 8 and 9 funds, reported an estimated 80% alignment with the taxonomy based only on substantial contribution criteria. However, due to the complexity of DNSH criteria and the requirement to meet every DNSH criteria, their actual alignment was reduced to 0%.

Impact: While their investors are aware of the funds and where they stand from a sustainability perspective, taxonomy-related disclosure is not helpful as a result of DNSH criteria.

Rec #1
Confirm the purpose of, approach to and definition of DNSH

Rec #2
Improve transparency of extent to which DNSH criteria are met

Rec #3
Establish functional design parameters for drafting DNSH TSC

Rec #4
Streamline EU DNSH TSC to improve usability

Rec #5
Guidance to complement DNSH reporting

Rec #6
Advocate for new approach internationally

Broader Taxonomy Usability Challenges

Broader Taxonomy Usability Issues



'The taxonomy does not give a complete picture of companies' activities on the eligibility side.'

- Oil & Gas Major

Rec #1
Confirm the purpose of, approach to and definition of DNSH

Summary

Many activities across the value chain and emerging technologies are not included in the EU taxonomy, often due to NACE codes that don't directly align to all relevant activities.

Insufficient granularity of NACE codes to differentiate between activities makes DNSH assessment very challenging, resulting in stifled innovation and misdirected capital flows. For a lot of entities investing in multiple assets, there are gaps in the taxonomy for activities across the entire value chain and for emerging technologies. Retrospective evidencing of compliance for existing assets also poses a challenge where in many cases it is not possible for investments to be mapped to taxonomy activities.

As a consequence of this challenge, taxonomy alignment doesn't always reflect actual sustainability of a given portfolio, and taxonomy alignment across all users is reduced. Investors are also less likely to use the taxonomy for decision-making.

This issue can impede capital moving in the right direction through the taxonomy, as some sustainable activities may look, to an investor, unsustainable.

Some users feel the taxonomy is trying to cover too many bases with DNSH and MSS criteria.

Some users believe that the taxonomy is not as tailored to the green agenda as it could be given that it covers a lot of bases through DNSH and MSS criteria. While these criteria are essential in ensuring green activities don't harm other objectives, their stringency can reduce the focus on the substantial contribution criteria and the green focus.

This challenge means that multiple green activities are not recognised as green due to stringency of other criteria, and investors are less likely to use the taxonomy for determining green investments given the number of bases covered. Compliance with MSS also poses challenge due to inadequate or non-existent corporate due diligence processes and difficulties evidencing against United Nations Guiding Principles on Business and Human Rights (UNGPs) and Organisation for Economic Co-operation and Development (OECDs).

Where the taxonomy fits into the broader regulatory environment is of concern.

Multiple stakeholders struggle with understanding the exact purpose of the taxonomy, given its stringent requirements. This is reflected in the use-cases of the end user stakeholders consulted.

This challenge could impede capital directed towards the most impactful investments, and stakeholders are less confident on the purpose of the taxonomy. The lack of clear purpose and direction for the taxonomy can overall make it difficult for investors to know how to use it in tandem with other reporting regulations.

Rec #2
Improve transparency of extent to which DNSH criteria are met

Rec #3
Establish functional design parameters for drafting DNSH TSC

Rec #4
Streamline EU DNSH TSC to improve usability

Rec #5
Guidance to complement DNSH reporting

Rec #6
Advocate for new approach internationally

What we've seen

Broader Usability Research

- Identifying significant harm would require a wider view than single NACE codes - where NACE codes have multiple activities under them or activities have no NACE codes, classification of projects can be challenging.
- Proving compliance with MSS at activity level is challenging because a number of standards referred to require the implementation of MSS at entity level.

Insights from International Jurisdiction Research

- Malaysia references the Task Force on Climate-Related Financial Disclosures (TCFD) as a guiding framework for standardising taxonomy-related disclosures in jurisdictions.
- Principles-based taxonomies like Malaysia and Thailand have adopted broader and more flexible definitions allowing for wider value chain activities to be captured.

What we've heard

Context: An asset manager determining taxonomy alignment.

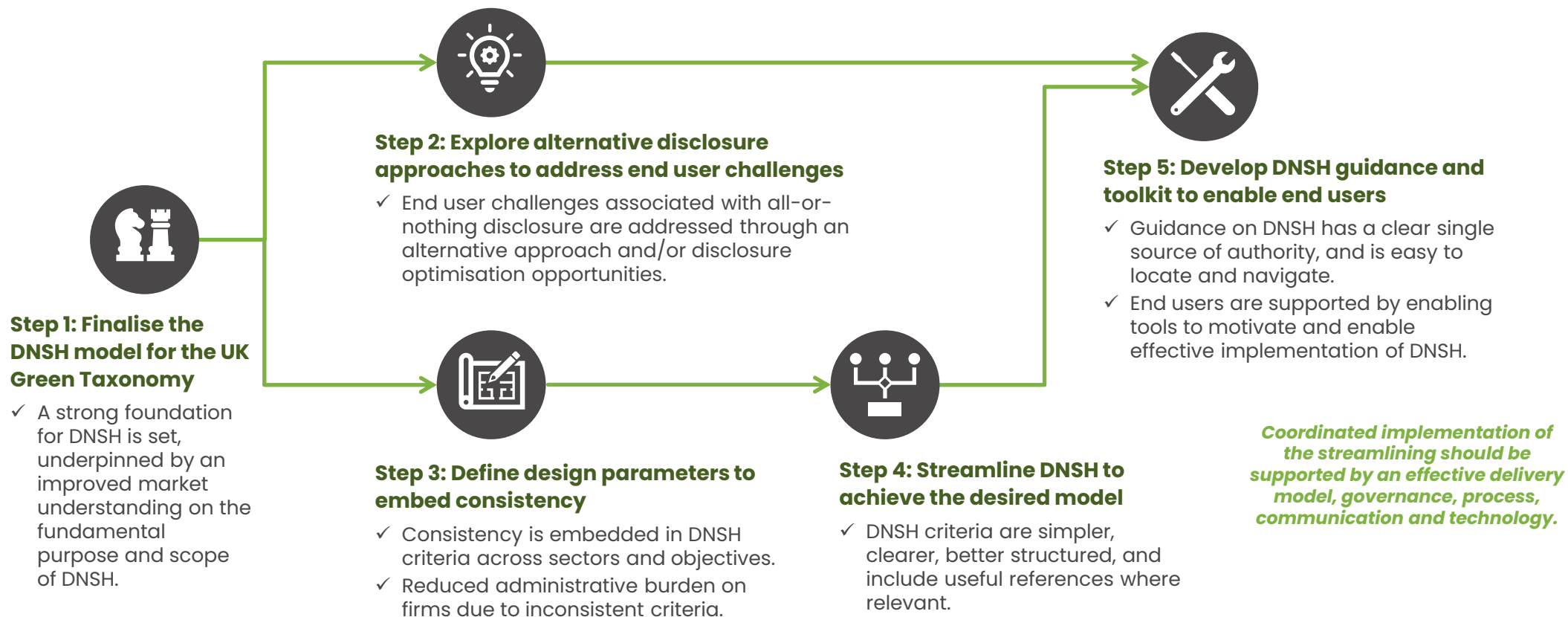
Situation: The investor had invertors that go into solar panels to improve efficiency as an investment in their portfolio. While this may be considered a clearly green activity, it is not currently recognised in the taxonomy given it does not align to NACE codes at present.

Impact: The investor did not feel their taxonomy alignment fully reflected how sustainable their investments were. They also expressed how the lack of inclusion of such activities impedes the direction of capital towards the best green initiatives.






Opportunities and Practical Steps to Streamline and Increase Usability of DNSH

A roadmap has been developed to support the design of a streamlined & usable DNSH principle for the UK

Detailed review and synthesis of the key findings, challenges and opportunities identified throughout all stages of this workstream have highlighted five key areas of opportunities relating to DNSH as set out in the roadmap below. To support an efficient and evidence-based approach to streamlining DNSH criteria, these key themes have been arranged as five practical steps to support the objective of streamlining and increasing the usability of DNSH criteria for the UK Green Taxonomy.



The practical steps and supporting considerations have a clear connection to the key opportunities identified throughout this workstream

Five key steps to streamline DNSH	 Step 1: Model	 Step 2: Disclosure	 Step 3: Design	 Step 4: Streamline	 Step 5: Enable
Objectives <i>The five steps set out the roadmap to streamline DNSH.</i>	Finalise the model of DNSH criteria for the UK Green taxonomy and define the field of play	Agree the fundamental approach to disclosure and consider disclosure optimisation opportunities	Align on indicative design parameters to inform streamlining approach and embed governance to ensure consistency	Implement opportunities to streamline and increase the usability of DNSH criteria	Develop DNSH guidance, toolkit, and supporting infrastructure to enable and encourage effective use of DNSH
Key considerations <i>Each step of the streamlining journey offers a range of considerations and opportunities. Some can be used in tandem for a more impactful outcome.</i>	Following confirmation of fundamental DNSH model (i.e. activities-based & adopt some, revise some) define DNSH field of play: <ul style="list-style-type: none"> • <u>Scope</u> of DNSH • <u>Definitions</u>, e.g. risk, significant, materiality • <u>Data</u>, e.g. proxies, gaps, interoperability • <u>Market readiness</u> • <u>Interfaces</u>, e.g. broader reporting, indicators This should be set out in the Autumn 2023 consultation to provide clarity to the market.	Determine whether to retain the ‘all or nothing’ approach to DNSH disclosure or adopt a risk-based approach. Analyse if disclosure enablers are suitable in the UK context, e.g: <ul style="list-style-type: none"> • Disclosure ‘<u>gates</u>’ • <u>Disaggregated</u> disclosure • <u>Traffic light</u> system • Risk-based <u>due diligence</u> disclosure • <u>Comply or explain</u> 	Narrow the bookends of variability in DNSH criteria and align on indicative thresholds for key factors: <ul style="list-style-type: none"> • <u>Length</u> of DNSH criteria • <u>Prescriptiveness</u> of DNSH criteria • <u>Context</u> provided for each criterion • <u>Granularity</u> of data points required • <u>Interoperability</u> of DNSH criteria 	Select and operationalise streamlining exercise by leveraging EU Mapping analysis : <ul style="list-style-type: none"> • <u>Gap analysis</u> of EU DNSH criteria against design parameters • <u>Condense</u> similar criteria • Simplify <u>structure</u> • Simplify <u>language</u> and remove <u>EU legislation</u> • Strengthen <u>references</u> 	Agree principles to shape the scope of guidance: <ul style="list-style-type: none"> • <u>Easy to locate</u> • <u>Single authority</u> • <u>Current and dynamic</u> • <u>Easy to understand</u> Iterate and finalise a scope of guidance & enabling tools, e.g.: <ul style="list-style-type: none"> • <u>Templates and tools</u> • <u>FAQs & knowledge hub</u> • Centralised <u>portal</u>

The key steps, considerations and opportunities set out in this roadmap provide a clear and practical reference point to support the development and implementation of a streamlined and usable set of DNSH criteria for the UK Green Taxonomy and are supported by the recommendations set out in this report.

Step 1: Finalise the DNSH model for the UK Green Taxonomy

Key Opportunity

Address existing concerns relating to materiality and data gaps.

Rec #1
Confirm the purpose of, approach to and definition of DNSH



Step 1A: Finalise model of DNSH for the UK

Step 1B: Define the UK DNSH field of play

Rec #2
Improve transparency of extent to which DNSH criteria are met

Rec #3
Establish functional design parameters for drafting DNSH TSC

Rec #4
Streamline EU DNSH TSC to improve usability

Rec #5
Guidance to complement DNSH reporting

Rec #6
Advocate for new approach internationally

Previous advice provided by GTAG* has recommended the government to take an 'adopt some and revise some' approach to onshoring EU criteria to the UK Taxonomy.

- Confirm the 'adopt some and revise some approach' will apply to DNSH criteria.
- Confirm DNSH will be activities-based (i.e. retaining EU approach with criteria for each activity).



Page 11

- The majority of EU TSC should be onshored as soon as possible and adopted, subject to the substitution of equivalent UK legal and regulatory reference points for those which currently refer to EU legislation and regulation;
- A small number of EU TSC should be revised prior to adoption. These are TSC that stakeholders have identified as being problematic and thus need to be revised before adoption.

Aspect	Key considerations	Why is this important?
Scope	<ul style="list-style-type: none"> • What has already been committed? • What are the legislative/regulatory/policy requirements?* • Can international standards/ESG indicators be referenced?* • Are there aspects of EU Taxonomy that cannot change?* 	This will support an efficient approach by ensuring clarity on the 'no-go-zones' for streamlining DNSH in the UK.
Definitions	<ul style="list-style-type: none"> • What is meant by 'significant'? • What is meant by 'harm'? • Where might these definitions nuance (sector, objective)? • Is a materiality lens required? How would this be explained? 	End users are not clear on what defines significant harm – highlighting inconsistency in materiality across DNSH.
Data	<ul style="list-style-type: none"> • How will data gaps be considered (e.g. legacy assets)? • When is use of proxy data permitted (if at all)?* • What will the approach be to supporting data comparability and interoperability with the EU (and other taxonomies)?* 	Lack of data to classify activities and evidence DNSH alignment is a primary issue impeding usability.
Market readiness	<ul style="list-style-type: none"> • Should DNSH requirements adapt (e.g. across sectors, assets) to account for variation in market readiness? • Is a phase-in approach required given the maturity of the market, and if so what would this involve (e.g. data gap remediation plans)?* 	Low market readiness combined with inflexible disclosure requirements reduce visibility of market performance.
Interfaces	<ul style="list-style-type: none"> • What are the key interfaces for DNSH and corresponding integration opportunities (e.g. MSS, Sustainable Disclosure Requirements (SDR), TCFD etc.)?* • Where can links between DNSH requirements and broader reporting requirements be strengthened?* 	This will reduce reporting burden, and unlock economies of scope and scale by building on existing reporting requirements.

Sources: *GTAG has released two sets of recommendations providing "[Advice on development of UK Green Taxonomy](#)" and "[Promoting the International interoperability of UK Green Taxonomy](#)".

**Key design consideration addressed in the [GTAG recommendations](#) and as a part of other workstreams

Step 2: Agree disclosure requirements

Key Opportunity

Consider an alternate DNSH disclosure approach

Rec #1
Confirm the purpose of, approach to and definition of DNSH

Rec #2
Improve transparency of extent to which DNSH criteria are met

Rec #3
Establish functional design parameters for drafting DNSH TSC

Rec #4
Streamline EU DNSH TSC to improve usability

Rec #5
Guidance to complement DNSH reporting

Rec #6
Advocate for new approach internationally



Step 2A: Select fundamental approach to disclosure

Retaining the EU's 'All-or-nothing' disclosure approach where not meeting all DNSH criteria means a firm is not aligned to the EU Taxonomy, even if all Substantial Contribution criteria and MSS requirements are met.

- ✓ Ensures all criteria are met in order to be compliant
- ✓ Easier to verify compliance
- ✗ Causes very low taxonomy alignment
- ✗ Reduced transparency provided for investors

Implement a risk-based disclosure approach whereby DNSH disclosure reflects extent of compliance with DNSH criteria – supported by a reporting approach that effectively increases taxonomy alignment.

- ✓ Provides a more nuanced view of performance against DNSH
- ✓ Flexibility for end users and synergies with general risk-management (e.g. scenario analysis)
- ✗ Difficult to define and compare thresholds for compliance

Step 2C: Identify key requirements and interfaces to support disclosure

The options presented in Step 2B are not mutually exclusive and evaluation needs to be performed to select the best approach for disclosure.

DNSH disclosure design considerations

- Are there any 'no-go zones'?
- Should the UK adopt a due-diligence approach, and what would this look like in practice? E.g. would this be a technical due-diligence against DNSH criteria; a due diligence of end user taxonomy disclosure, etc.?

DNSH disclosure implementation considerations

- What assurance would be required to support the proposed approach to DNSH disclosure?

Step 2B: Consider non-mutually exclusive disclosure option

Introduce **disclosure 'gates'** requiring users meet a set of standards as a prerequisite to demonstrating compliance with DNSH criteria.

Develop template for **disaggregated disclosure** of taxonomy alignment – enabling a breakdown of % alignment with DNSH criteria without changing compliance requirements.

Review **traffic light disclosure options** for DNSH and definitions of Red, Amber, Green for DNSH alignment. RAG scales could also be used as alignment yardsticks (i.e. under all-or-nothing approach).

While traffic-light reporting is most commonly used under risk-based disclosure, it could be used under an 'all-or-nothing' disclosure approach to provide greater performance visibility, while still requiring 100% to be deemed taxonomy-compliant.

Disclosure informed by verified **risk-based due diligence** and remediation.

Comply, or explain where DNSH criteria are not met, but explanation is given i.e. plan to remediate.

International example

In **Thailand**, end users must align with Thai law and a set of international conventions as a prerequisite before any assessing alignment with detailed (sector or activity) DNSH criteria.

Market testing identified **disaggregated disclosure** as a strong option allowing clear visibility over where the gaps are, and what can be done to address them.

Thailand and **Malaysia** both deploy traffic light disclosure approaches with different definitions for DNSH and what counts as Green, Amber, Red for DNSH criteria alignment.

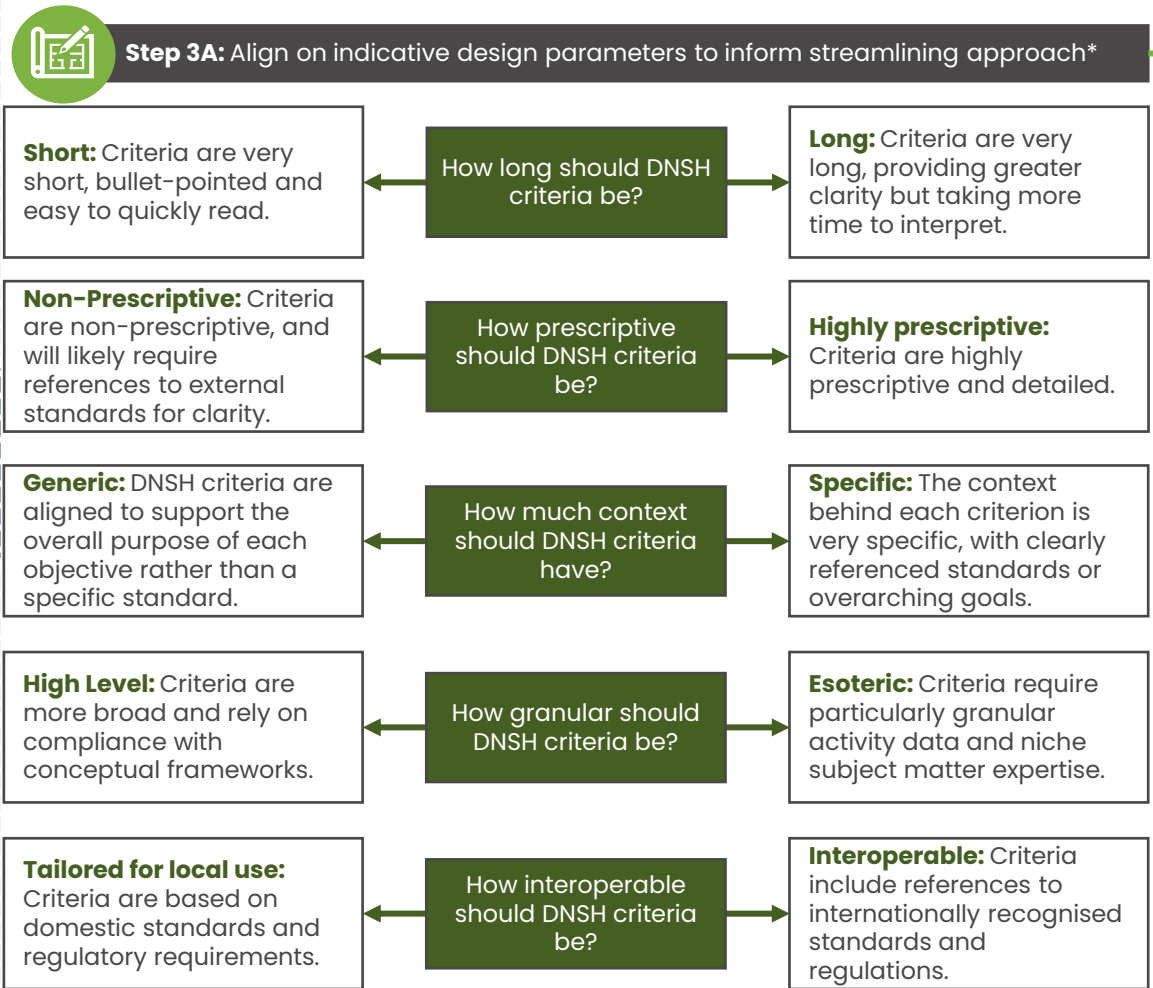
In **Malaysia**, risk-based traffic light assessments must be supported by external assurance – serving a similar function to due diligence.

In **Thailand**, an explanation and deficiency correction plan is required to receive an 'Amber' rating, where full alignment with DNSH principles cannot be demonstrated.


Step 3: Agree DNSH design parameters

Key Opportunity
Embed a consistent approach to DNSH criteria


- Rec #1 Confirm the purpose of, approach to and definition of DNSH
- Rec #2 Improve transparency of extent to which DNSH criteria are met
- Rec #3 Establish functional design parameters for drafting DNSH TSC
- Rec #4 Streamline EU DNSH TSC to improve usability
- Rec #5 Guidance to complement DNSH reporting
- Rec #6 Advocate for new approach internationally



Step 3B: Take inspiration from international approaches to DNSH


 **SA: Activity-based DNSH following the EU approach, with simplified and shortened criteria (see SA/EU case study).**

Minimise noise and vibrations of rolling stock, thresholds in line with the Environmental Conservation Act (Act 73 of 1989) and the Occupational Health and Safety Act (Act 85 of 1993).

 **NZ: Sector & process-based DNSH mapped to EU objectives**

3. Protect high carbon stock land (as applicable):

- ▶ Permanent grassland is maintained unless converting low-producing permanent grassland to vegetation or crops.
- ▶ Wetland and peatland appropriately protected.
- ▶ Continuously native/diversely forested areas, namely land spanning more than one hectare, are not converted.

 **Thailand: DNSH principles, gated by international standards**

Any activity owner who may want to utilize the present taxonomy must abide by the following set of international norms, rules and regulations (including, but not limited to):

Step 3C: Develop design implementation guidance and governance

- Consider **what safeguards will be required** to ensure that embedding consistency by narrowing the design parameters does not dilute the ambition or fundamental purpose of DNSH criteria.
- Consider **nuance, outliers and where divergences from the design parameters** may be required (e.g. for particularly complex activities).
- Develop **design governance** to ensure design parameters can be consistently interpreted and applied when streamlining DNSH. Notably, consultation with stakeholders involved in drafting EU DNSH criteria highlighted that having a design governance in place to ensure consistent criteria structure would be hugely beneficial.

Step 4: Streamline DNSH

Key Opportunity
Make DNSH criteria simpler, clearer and more consistent

- Rec #1 Confirm the purpose of, approach to and definition of DNSH
- Rec #2 Improve transparency of extent to which DNSH criteria are met
- Rec #3 Establish functional design parameters for drafting DNSH TSC
- Rec #4 Streamline EU DNSH TSC to improve usability
- Rec #5 Guidance to complement DNSH reporting
- Rec #6 Advocate for new approach internationally

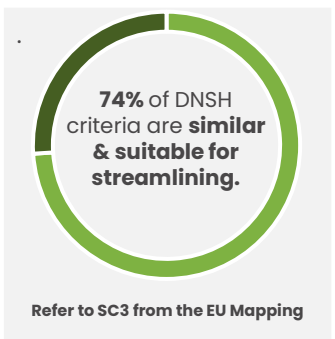
Step 4A: Select streamlining opportunities

Streamlining opportunity

Gap analysis	Condense DNSH	Simplify structure	Sharpen language	Strengthen references
<p>Undertake a gap analysis of DNSH criteria against design parameters agreed in Step 3 to identify where streamlining effort should be focused, including sectors/objectives requiring particular attention. This exercise will help ensure a consistent and targeted approach to the streamlining DNSH criteria.</p>	<p>Identify and combine DNSH criteria with similar requirements to reduce duplication and inconsistency. South Africa took this approach by combining economic activities. If 'gated' disclosure is adopted, the essence of DNSH criteria could be condensed into a set of pre-requisite principles.</p>	<p>Simplify the structure of DNSH criteria by logically breaking down long text blocks and using bullet points.</p> <p>New Zealand's Phase One Guidance for Sustainable Agriculture Finance for Livestock uses clearly structured DNSH criteria, making effective use of bullet points, and employing simple language that is easy to understand.</p>	<p>Streamline and sharpen the language used in DNSH criteria by clarifying and, where possible, simplifying the technical detail and removing EU-specific references to ensure end users can easily understand DNSH criteria. Stakeholders involved in drafting EU DNSH noted this as a key area for improvement.</p>	<p>Ensure DNSH include clear and appropriate references and where useful comparable standards can increase rigour & interoperability.</p> <p>Adhering to international standards has been adopted by Thailand. The equator principles are an example of a method to establish equivalence across multiple jurisdictions.</p>

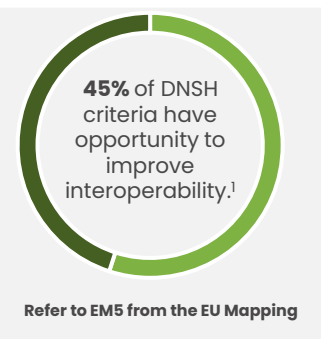
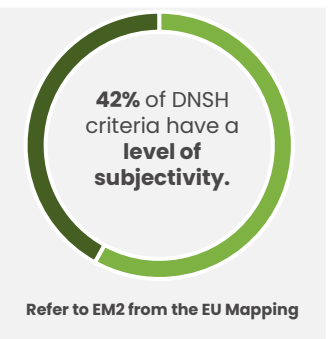
Step 4C: Leverage EU Mapping to streamline DNSH criteria in line with the agreed approach

[See EU Mapping Findings Here](#)



A preliminary yes/no view which DNSH criteria have a significant opportunity to improve readability is set out in the EU Mapping document.

Note: this was not part of the formal scorecard assessment.



Step 4B: Implementation Considerations

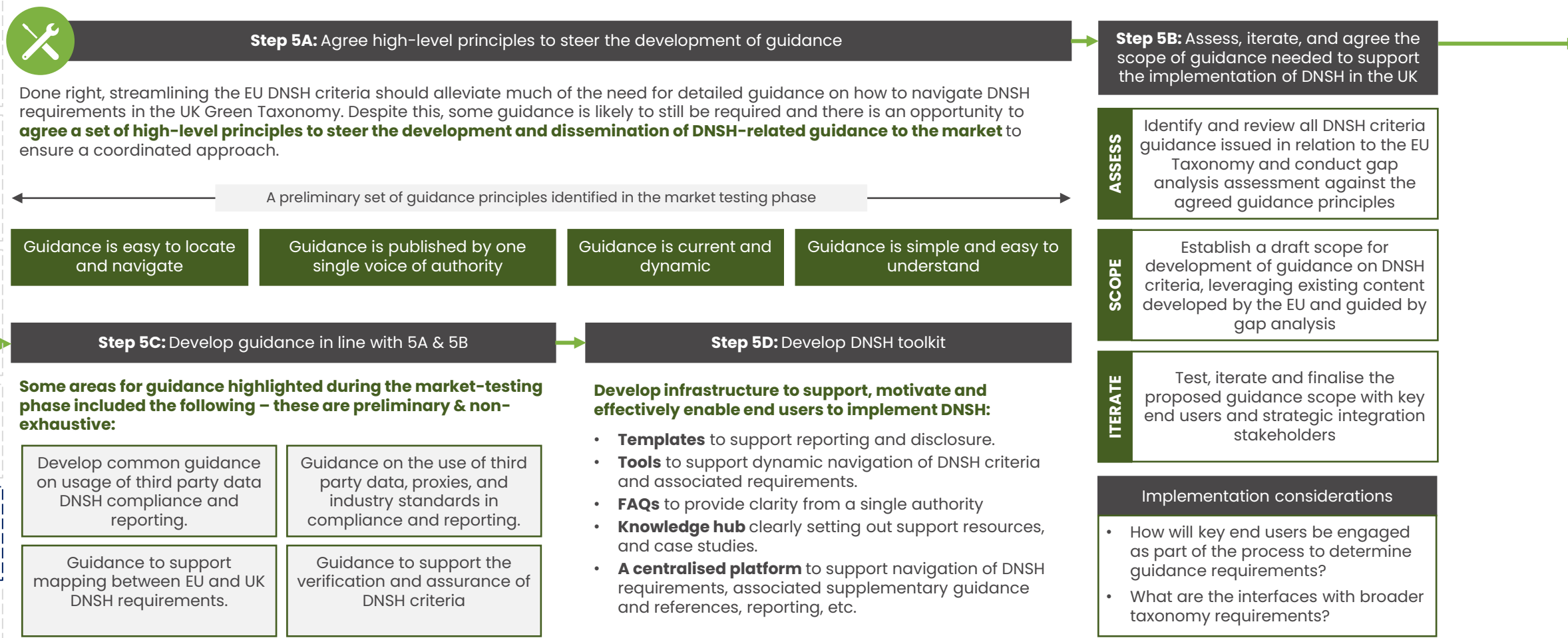
- **Operationalise design governance** developed in Step 3 to support consistency
- **Develop tools** to support a consistent approach to streamlining (e.g. templates)
- **Identify key stakeholders** and delivery model to support the streamlining exercise.
- Consider ways to **increase efficiency and consistency** in the 'first-pass' of the streamlining effort (e.g. can any of the process be automated?)
- **Leverage work undertaken by South Africa** (and other international taxonomies as relevant) to streamline DNSH criteria.
- Agree **approach for tracking and reporting** progress against the streamlining effort.
- Consider if **capability/capacity boosts** are required to ensure consistent streamlining

¹ As part of the EU Mapping Assessment, DNSH criteria are scored higher for interoperability when they include references to international standards, and/or generic national law, and/or include no referencing to any standards because these would all be easily applicable in any jurisdiction. DNSH criteria are scored lower for interoperability where there are references to specific EU legislation or directives.

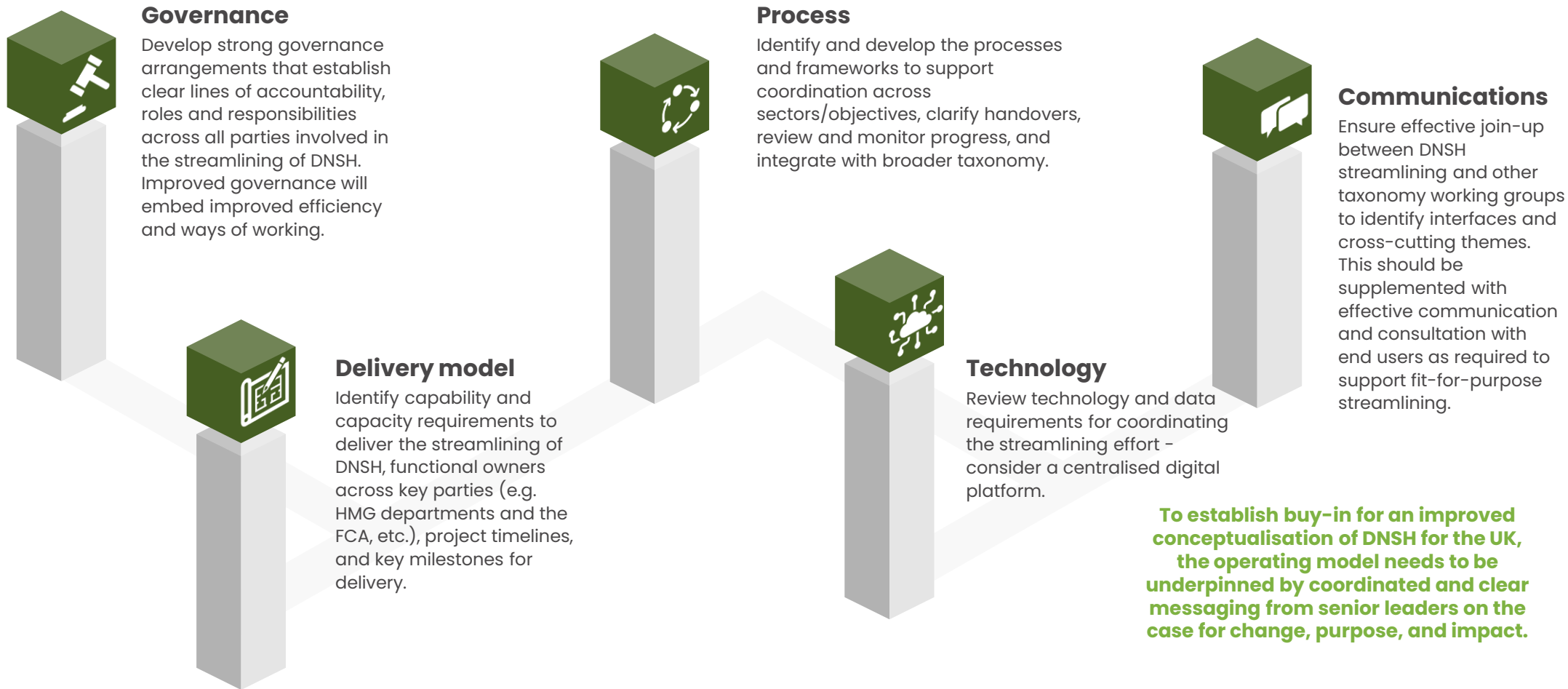
Step 5: Develop DNSH Guidance and Toolkit

Key Opportunity
Develop guidance to support end users implement DNSH

- Rec #1**
Confirm the purpose of, approach to and definition of DNSH
- Rec #2**
Improve transparency of extent to which DNSH criteria are met
- Rec #3**
Establish functional design parameters for drafting DNSH TSC
- Rec #4**
Streamline EU DNSH TSC to improve usability
- Rec #5**
Guidance to complement DNSH reporting
- Rec #6**
Advocate for new approach internationally



High-level operating model considerations to support the streamlining of DNSH for the UK Green Taxonomy



Appendices

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Appendix A: Background, Purpose & Approach

Overview of the principle of DNSH

The principle of DNSH is a key component of many taxonomies in development internationally, including the EU Taxonomy which the UK is using as its base framework. The principle ensures that economic activity supports one environmental objective and does not have an adverse impact on others. This supports the flow of capital into sustainable activities.



Understanding the DNSH principle

EU regulators introduced the DNSH concept of avoiding significant harm under both the Sustainable Financial Disclosure Regulation (SFDR) (Article 2(17)) and the Taxonomy Regulation (Article 17)*. The Taxonomy Regulation establishes six environmental objectives. To be considered environmentally sustainable, an economic activity must meet three criteria:

- a) **Contribute to one or more of the environmental objectives and comply with technical screening criteria.**
- b) **DNSH to other environmental objectives and comply with technical screening criteria.**
- c) **Be carried out in compliance with minimum safeguards.**

DNSH is one of the tests that an economic activity must meet in order to be considered environmentally sustainable, causing no significant harm to the six environmental objectives established under the EU Taxonomy.



DNSH challenges in the EU Taxonomy

DNSH criteria in the EU Taxonomy reveal multiple challenges and are complex to navigate. Some DNSH requirements are unique and forward-looking, with many of them relating to EU legislation. In addition, some requirements are inconsistent and ambiguous in terms of corporate disclosures. **GTAG has previously recommended Government onshore the EU Taxonomy with an approach of “adopt some and revise some” for technical screening criteria.**



Making DNSH fit for purpose for the UK

Depending on how such DNSH criteria are administered, they have the potential to create significant usability issues for the UK Green Taxonomy. **There are potentially very significant opportunities to streamline, simplify and improve DNSH compliance requirements, without compromising the robust, science-based nature of the criteria.** This GTAG workstream aims to identify opportunities to streamline and increase the usability of DNSH criteria within the UK Green Taxonomy.

Note: the six environmental objectives are climate mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems;

*Principle of do no significant harm (DNSH): <https://emissions-euets.com/carbon-market-glossary/2141-principle-of-do-no-significant-harm>

Designing and implementing a fit-for-purpose DNSH approach for the UK Green Taxonomy is a critical step to deliver on the UK's net-zero by 2050 policy ambition

WORKSTREAM STRATEGIC CONTEXT

The UK Government published its Green Finance Strategy in March 2023, revising its first issue from 2019. The Strategy sets out how the UK Government will pursue its ambition to become the world's first Net Zero-aligned Financial Centre – equipping the market with the information and tools necessary to drive the transition. **Implementing a useful and usable UK Green Taxonomy** that provides reliable information to the market, redirects capital towards activities supporting the transition to net zero, and delivers on the UK's environmental objectives **forms a critical part of the Green Finance Strategy.**

The UK has onshored the majority of the EU Taxonomy Regulation, which sets out the high-level design features of the Taxonomy in the UK. However, the Delegated Acts that include the **technical screening criteria (TSC) for substantial contribution (SC) and DNSH criteria have not been onshored** as they were introduced following the UK's exit from the European Union. This **provides an opportunity** to learn from challenges faced in implementing DNSH in other taxonomies to **develop a conceptualisation of DNSH that is usable, useful, robust and internationally interoperable.**

APPROACH

Streamlining and increasing the usability of the EU DNSH criteria is a priority for the UK government and a key focus for Workstream 2: 'Usability and Data' of the Green Technical Advisory Group (GTAG).

This workstream developed an evidence-based and high-level roadmap to inform recommendations to Government on how best to realise the 'adopt some, revise some' approach to streamlining and increasing the usability of EU DNSH criteria. This evidence-based report was informed by:

- Detailed assessment of EU DNSH criteria against a bespoke scorecard.
- Review of broader design challenges associated with DNSH.
- Market testing with key end users and strategic integration stakeholders.
- Review of international approaches to DNSH.

OBJECTIVES

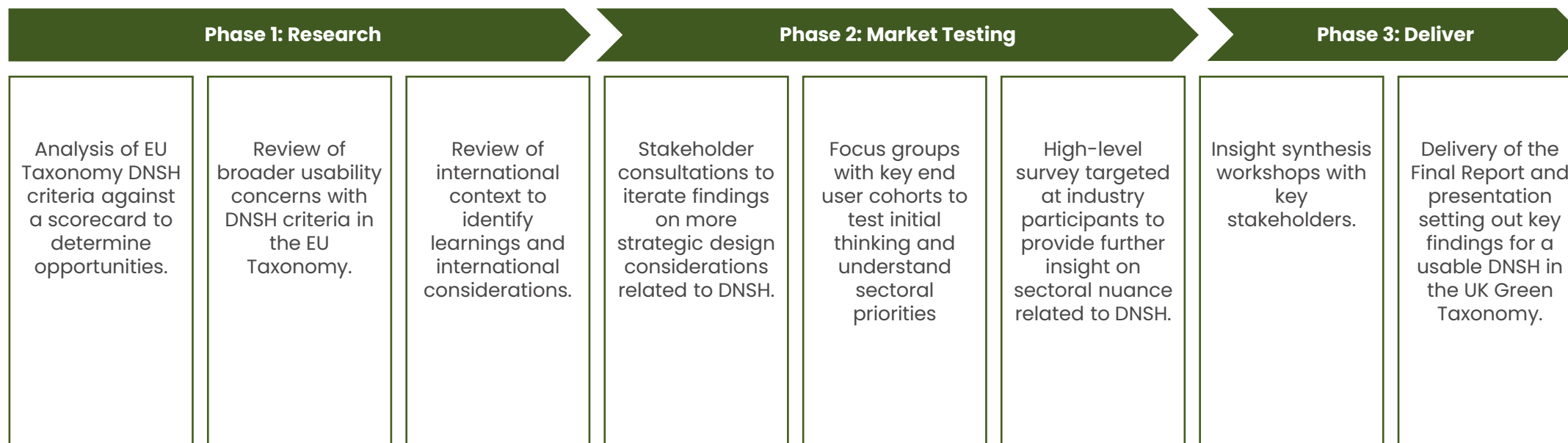
Done right, streamlining and increasing the usability of DNSH will support the UK in achieving the objectives set out in the Green Finance Strategy.

Key success factors include:

- ✓ Fundamental principle of DNSH is understood by the market.
- ✓ DNSH criteria can be understood, measured, and evidenced.
- ✓ DNSH criteria are robust, logical and rooted in best practice.

A three-phase approach was taken for this workstream

The work spanned three phases, including a detailed review and assessment of DNSH criteria, desktop research on international case studies and broader usability challenges, and market testing with key stakeholders across sectors. The diagram below sets out the overall approach and key activities, and shows how these activities fed the key deliverables.



Appendix B: Initial Analysis Findings

Analysis of EU Taxonomy DNSH criteria against a
scorecard

Initial Analysis Findings

Objectives

- This workstream aims to identify opportunities to streamline and increase the usability of DNSH criteria within the UK Green Taxonomy, by analysing the usability of DNSH criteria within the EU Taxonomy, building on learnings from other jurisdictions and conducting market testing.
- This section highlights the initial findings from the analysis of the EU Taxonomy DNSH criteria against a bespoke scorecard, developed with the UK Government's Green Finance Roadmap's three core principles in mind – robust, evidence-based; accessible; built for the UK to support a global transition.

Assumptions and limitations

- These findings contributed to the wider report, that will feed into GTAG's advice on improving the usability and data relating to the UK Taxonomy.
- The final report only comments on the usability of DNSH criteria and will not comment on appropriateness, scope, and efficacy of DNSH criteria for onshoring to the UK Green Taxonomy.

Key considerations

- The findings in this section were developed by analysing DNSH criteria using 3 different lenses:
 1. Aggregate lens – the full suite of individual DNSH criteria
 2. Sector lens – DNSH criteria across key sectors of the EU Taxonomy for sector level themes
 3. Objective lens – DNSH criteria across the six environmental objectives of the Taxonomy for objective level themes
- The findings, including the opportunities for streamlining and increasing the usability of DNSH criteria, focus on the end user perspective. As such, the appropriateness and efficacy of detailed DNSH content has not been investigated.
- In determining which opportunities to put forward, consideration should be given to the wider context of UK Taxonomy developments.



Scope and approach

Approach to developing the initial analysis from a detailed review of DNSH in the EU Green Taxonomy

The approach for the analysis of DNSH criteria against a scorecard (part of 'Phase 1: Research' of the approach) made use of existing work relating to DNSH, undertaken by FTSE Russell and the EU Platform on Sustainable Finance. Below is a high-level overview of the steps taken to identify opportunities to improve DNSH for the UK Green Taxonomy that feed into the initial analysis

Step 1: Developed scorecard

A scorecard was developed to support the identification of DNSH criteria that can be streamlined and/or made more usable. The scorecard comprised screening criteria and evaluation metrics informed by UK Green Taxonomy objectives and known EU challenges.

Step 2: Mapped unique DNSH requirements

Individual DNSH criteria were identified by mapping the 105 DNSH themes identified by FTSE Russell to the activity-level requirements set out in the EU Taxonomy Compass. These were disaggregated into unique DNSH criteria enabling a full assessment.

Step 3: Assessed DNSH criteria

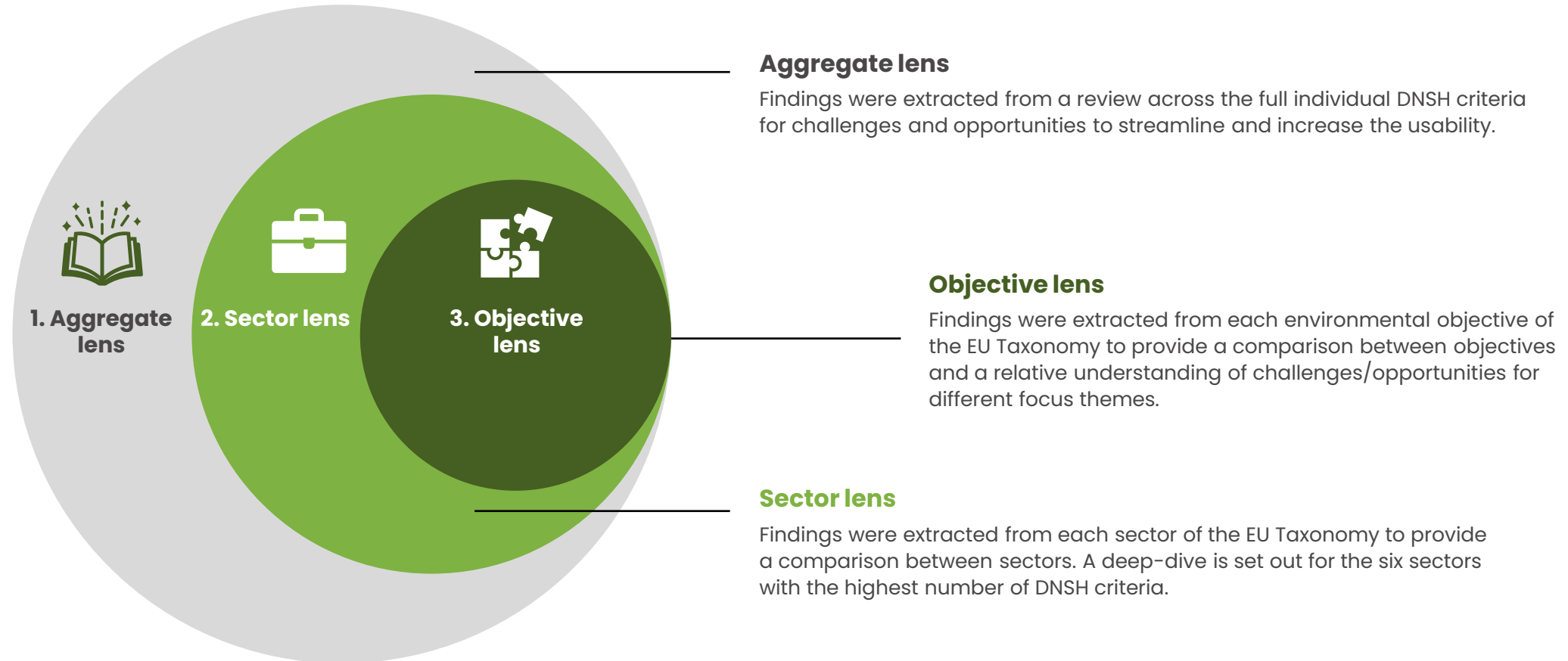
Following the development of a bespoke tool to anchor the scorecard analysis, individual DNSH were assessed against the screening criteria (yes/no) and evaluation metrics (low, medium, high). Data structure enabled analysis across sectors, objectives and in aggregate.

Step 4: Developed interim findings

Based on the scoring analysis, emerging findings relating to the usability of DNSH in the EU Taxonomy were identified. Three lenses were applied to understand how these findings were nuanced across Taxonomy objectives and sectors, and with regards to the fundamental composition of DNSH criteria.

Findings from this review were identified using different lenses for analysis

Using different lenses to undertake this analysis enabled the identification and extrapolation of different themes to inform the findings. Opportunities for streamlining and increasing the usability were also suggested through these lenses.





Key initial findings

Key initial findings

The review of DNSH criteria in the EU Taxonomy revealed five key findings.

01

Too hard to understand

Some criteria are ambiguous and difficult to understand due to their length, poorly defined requirements, unclear language, and overall lack of structure.

02

Too hard to measure

Some criteria are difficult to both comply with and evaluate as they have poor or no quantitative or process-based thresholds against which performance can be measured.

03

Too hard to comply with and evidence

In many cases, DNSH thresholds have no clear references – potentially making users less likely to implement the taxonomy and eroding the overall legitimacy of the criteria.

04

Poorly integrated

DNSH criteria at present are not well integrated within the current broader reporting environment and international standards – missing an opportunity to embed taxonomy into current corporate disclosure.

05

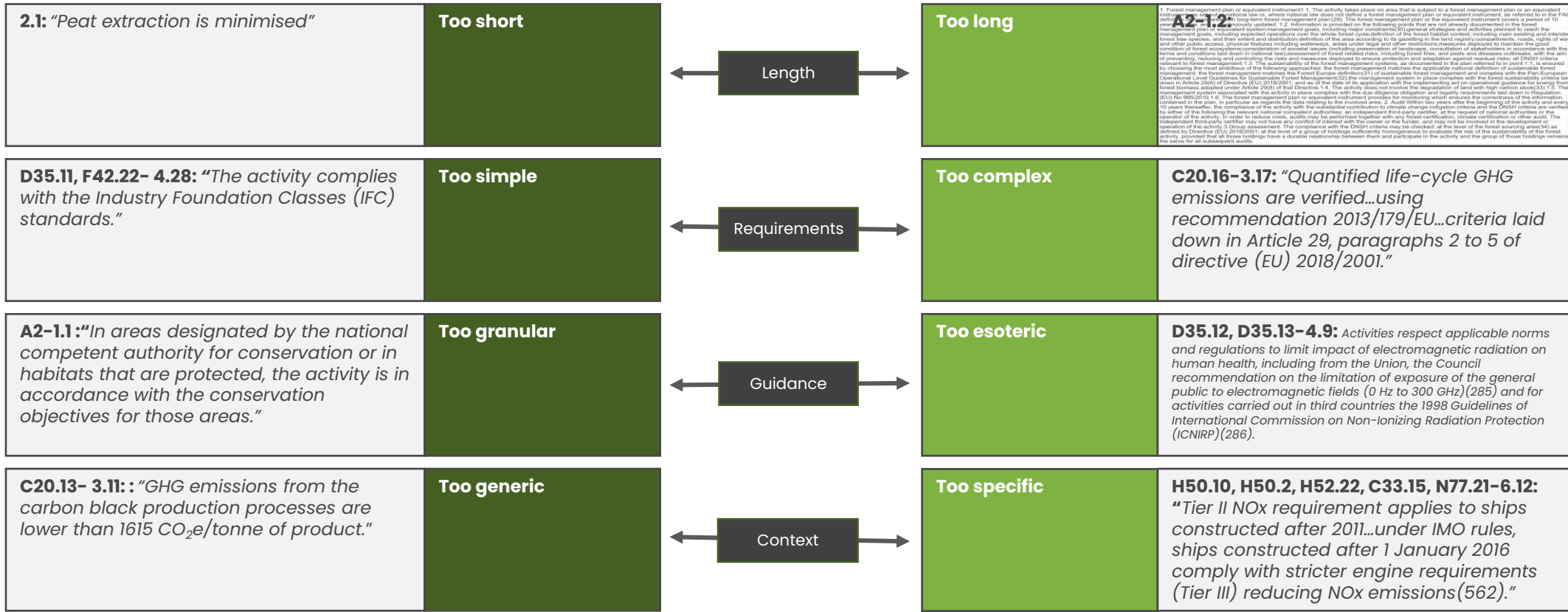
Inconsistent and duplicative

While many DNSH are similar in essence, the variability between them can be significant. The bookends of key variables that determine the composition of DNSH (e.g. length) are broad.



Key initial findings | aggregate lens

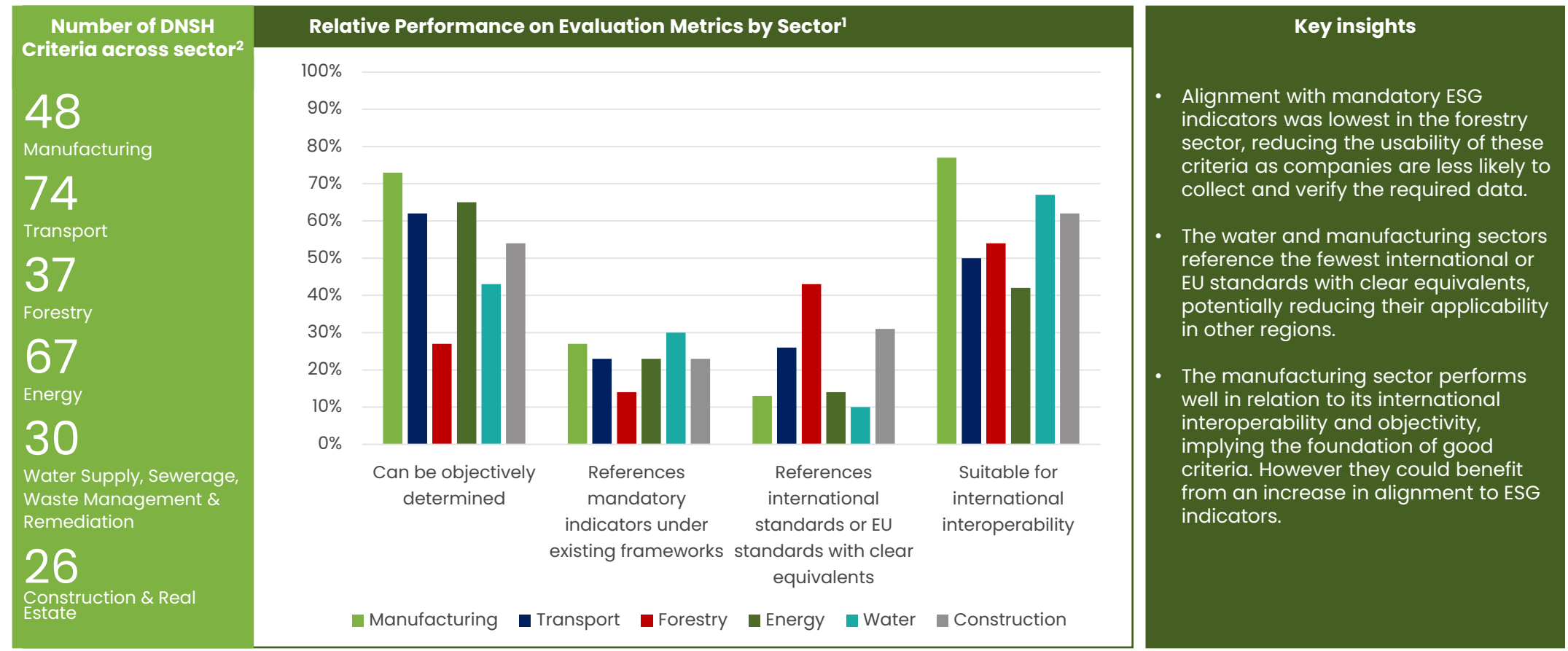
There is significant variability and inconsistency across the key factors that inform the usability of DNSH criteria. The diagram below sets out the 'bookends' of variability that exist in the EU taxonomy across key DNSH composition factors. The disparity enabled by these broad spectrums of possibility are compounded by inconsistent judgements on these factors across similar DNSH criteria. While in many cases it is likely differentiation between criteria is necessary to reflect nuances across sectors and objectives, developing a more consistent style of drafting and structuring the criteria will help to provide a better understanding of what DNSH 'looks like' and the expectations around it. Narrowing these bookends and developing a process for embedding consistency in judgements across these factors will drive the usability and robustness.



Key initial findings | sector lens



The relative performance based on evaluation metrics of DNSH criteria for sectors varies significantly and is outlined by the chart below along with key insights on specific sectors and overall performance across four screening criteria.

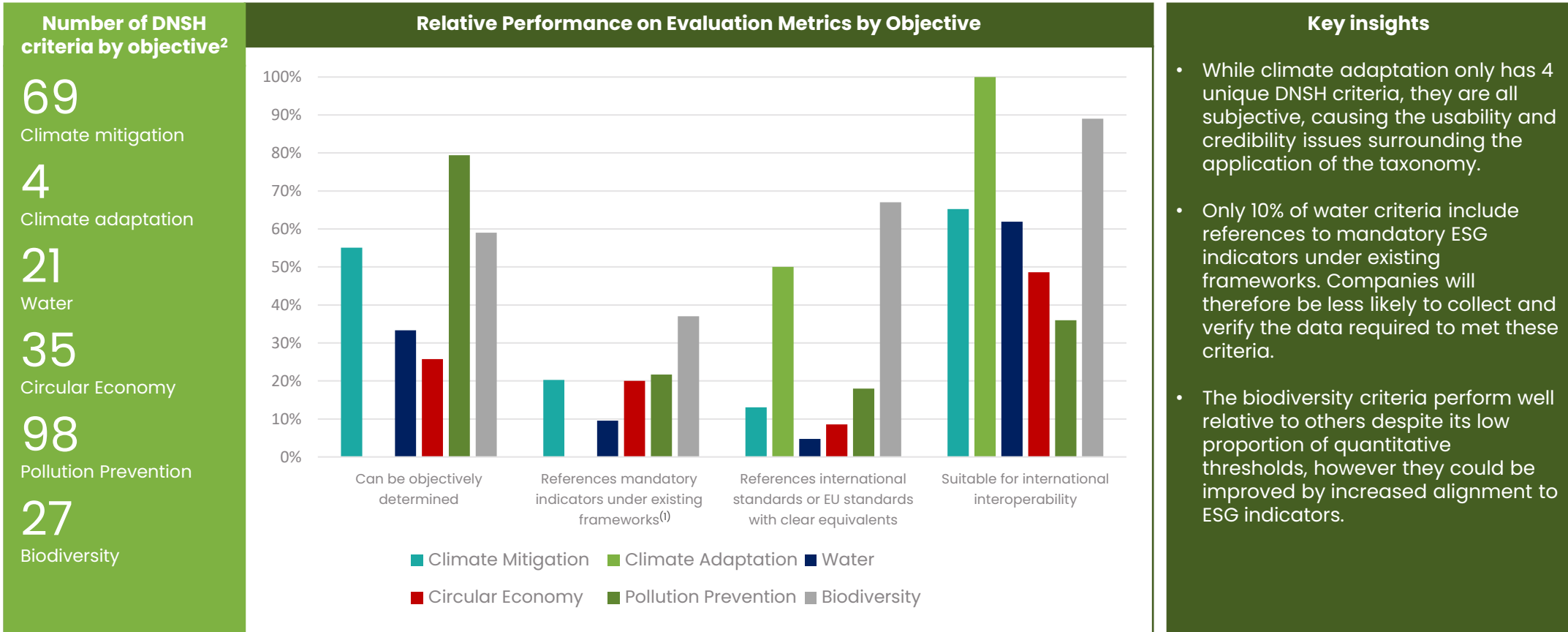


Note: 1) DNSH criteria were spliced by sector and compared against each evaluation metric. The graphs above show the percentage of criteria reporting a score of 2 which is the highest possible. e.g. 72% of the 48 manufacturing DNSH criteria can be objectively determined. This means that criteria not or partially achieving these questions is not included.

2) Across all objectives with each criteria counted once, there is a total of 254 criteria, while across the 6 most material sectors there are 282 criteria. This is due to the fact that some criteria are included across multiple sectors. – e.g. A1 within the climate adaptation objective is repeated across 9 different sectors so this criteria is counted 9 times if looking at total criteria for sectors.

Key initial findings | objective lens

The relative performance based on evaluation metrics of DNSH criteria across the 6 objectives varies significantly and is outlined by the charts below along with key insights on specific objectives and overall performance across the 5 evaluation metrics.



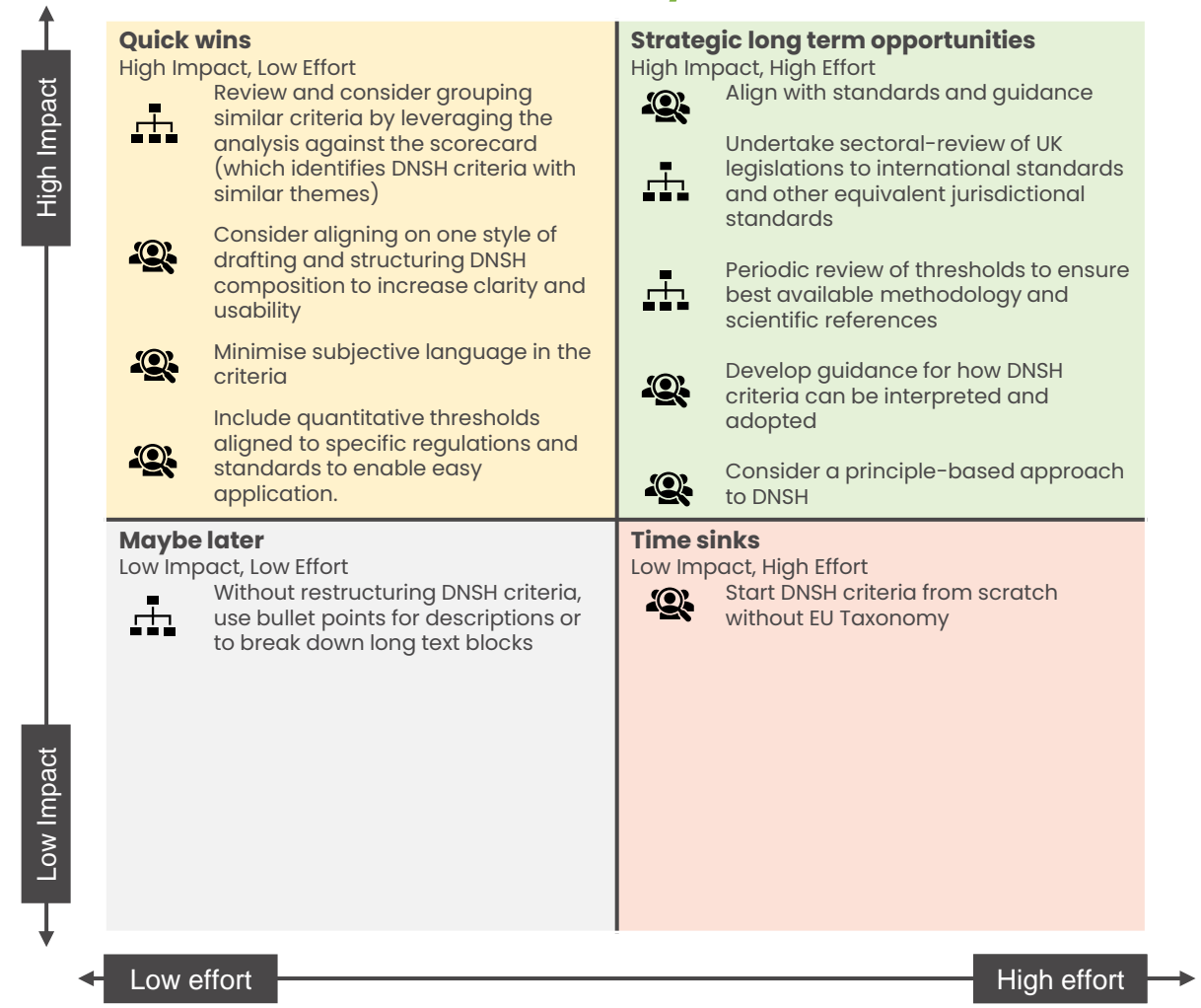
Note: 1) Only cases in which the indicators are mandatory were incorporated; some criteria referenced non-mandatory indicators which are not reflected.
2) Note: as all criteria are unique to their objective while some are included across multiple sectors, the total number of criteria across objectives differs to the total number across sectors – e.g. AI is only present in climate adaptation but is repeated across 9 different sectors.

Key opportunities to streamline and increase the usability of DNSH in the UK Green Taxonomy

This diagram provides a framework to prioritise the opportunities identified through this analysis.

It sets out some of the opportunities across four quadrants, ranging from 'high impact, high effort', through to 'low impact, low effort'.

The opportunities on this page were considered when preparing recommendations. Not all opportunities were incorporated into the recommendations, but could be considered in the future.



Legend			
	Usability Opportunities		Streamlining Opportunities

Key design questions emerging from the review

The opportunities on this page were considered when preparing recommendations. Not all opportunities were incorporated into the recommendations, but could be considered in the future.

01

Should DNSH be aligned to activity descriptions or be based on a set of principles underpinned by thresholds?

- Is there scope for a hybrid model – e.g. A set of high-level generic DNSH principles for each objective, with sector or activity specific thresholds on an as-needed basis

02

To what extent should broader ESG indicators / standards be integrated?

- What is the role of the UK Taxonomy in the broader ecosystem of frameworks?
- What mechanisms and controls are needed to optimise flows between key frameworks, e.g. SFDR, TCFD?

03

What are the suitable parameters for key DNSH variables?

- Would it be preferable to have less prescriptive and detailed criteria with more guidance, or more prescriptive and detailed criteria theoretically requiring less guidance?

04

How should robustness be considered in DNSH?

- Is robustness an outcome of increased usability?
- How should compliance with DNSH be verified?
- What governance is required to maintain best practice?

05

What should the approach to international interoperability for DNSH be?

- To what extent does the UK want to align, prioritise, etc. with other jurisdictions?



Detailed Scorecard for EU Mapping

Scorecard- Screening metrics (1/3)

Screening criteria				
Theme		Metrics	Response	Further Guidance
DNSH composition	SC1	What objectives does the DNSH criteria cover?	[select]	Select the relevant environmental objective from the list: <ul style="list-style-type: none"> • Climate Mitigation • Climate Adaptation • Water • Circular Economy • Pollution Prevention • Protection & Restoration (Biodiversity)
	SC2	What sectors does the DNSH criteria cover?	[select]	Select the relevant sectors from the list: <ul style="list-style-type: none"> • Forestry • Manufacturing • Environmental Protection • Energy • Water • Transport • Construction • Information • Professional • Financial • Education • Human Health • Arts
	SC3	Is the DNSH criteria similar to other criteria?	Yes	Similarity between the TSCs is assessed based on presence of multiple TSCs disaggregated under a common theme. For example, M10 (Theme- Meet the threshold of tCO ₂ e/tonne of product), is split into M10.1, M10.2, up until M10.7 due to similarity in the content. For DNSH TSCs similar as above, the responses are recorded as 'Yes'.
			No	Otherwise, it is recorded as 'No'.

Scorecard- Screening metrics (2/3)

Screening criteria				
Theme		Metrics	Response	Further Guidance
DNSH composition	SC4	Is the data required to evaluate the DNSH criteria readily available?	Yes	Respond 'Yes' if DNSH: <ul style="list-style-type: none"> Data ties back to any reporting regime. Activity relates to ordinary business processes Processes are specifically sector-focused (e.g. forest management plan within the forestry sector)
			No	Respond 'No' if: <ul style="list-style-type: none"> None of the above.
	SC5	Is supplementary guidance required to evaluate the DNSH criteria ?	Yes	Respond 'Yes' if DNSH: <ul style="list-style-type: none"> Are clearly subjective and requires further details for understanding. For example: Use of phrases such as 'maximised', 'minimised', and 'best possible' Are criteria which don't reference a separate standard/legislation and are also difficult to interpret.
			No	Respond 'No' if: <ul style="list-style-type: none"> None of the above.
	SC6	Does the DNSH criteria include reference to EU legislation or Directive?	Yes	Respond 'Yes' if DNSH: <ul style="list-style-type: none"> Identify and references made to EU legislation or Directives. This must be in the form of a direct reference to a legislative code.
			No	Respond 'No' if: <ul style="list-style-type: none"> The above does not apply National law reference is stated
	SC7	Does the TSC have quantitative thresholds or is it process-based?	Quantitative	Quantitative threshold TSCs are numerical limits or definitions embedded in the TSC's to assess harm to environment. If the TSC clearly identifies a quantitative threshold, respond 'Yes'.
			Process-based	Process-based TSCs are qualitative descriptions of industrial activities. If the TSC clearly identifies a process-based threshold, respond 'No'.

Scorecard- Screening metrics (3/3)

Screening criteria				
Theme		Metrics	Response	Further Guidance
Alignment with the UK	SC8	Does the TSC align with the UK's transition pathways and wider environmental goals?	Yes	Respond 'Yes' if DNSH: <ul style="list-style-type: none"> Aligns with existing UK laws and regulations relating to key elements of the criteria Refer to UK Greening Finance Roadmap initiatives
			No	Respond 'No' if: <ul style="list-style-type: none"> None of the above.
	SC9	Does the TSC have UK-appropriate sectoral coverage?	Yes	If the SIC activity directly maps to a sector of the activity, then respond 'Yes'
			No	Otherwise, respond 'No' Note: This question will always be answered 'Yes' as all SIC codes can be mapped with the sectors in the EU taxonomy
	SC10	Does the TSC include metrics from existing UK reporting regimes?	Yes	Respond 'Yes' if DNSH: <ul style="list-style-type: none"> Contains broader guidance with TCFD, ISSB, SFDR, etc.
			No	Respond 'No' if: <ul style="list-style-type: none"> None of the above

Scorecard- Evaluation Metrics (1/2)

Evaluation metrics						
	Metrics			Score	Further Guidance	Metric objective
EM1A	If SC7 is answered as 'Quantitative thresholds', answer EM1A only. Otherwise, answer EM1B only.	Does the TSC contain quantitative thresholds for assessing the DNSH?	0	No	The evaluation metric identifies quantitative criteria that are not clearly referenced against existing regulations.	The EM identifies criteria that will be difficult to evaluate and is not aligned to commitments/regulations.
			1	Yes: with no reference for thresholds	A quantitative threshold is present but without any references to relevant legislation.	
			2	Yes, with clear reference for quantitative thresholds (e.g. Paris aligned, regulations)	A quantitative threshold is presented with reference to relevant legislation such as: EU Legislation, International Standards, and/or national laws.	
EM1B		Does the TSC contain process-based measures for assessing the DNSH?	0	No	The evaluation metric Identifies criteria that are harder to assess and require a judgement call from investors.	The EM identifies criteria that are harder to assess and require a judgement call from investors.
			1	Yes, but with unclear/no reference as to what process is based on	A process is outlined, but with no legislation or standards referenced.	
			2	Yes, with clearly reference as to what process is based on	A Process is outlined with clear reference to EU legislation, International Standards, National laws, etc.	
EM2	Can the DNSH criteria be objectively determined or have clear Yes/No outcomes?		0	No, TSC is subjective	No objective information can be ascertained from the TSC.	The EM identifies criteria that use imprecise language leading to subjectivity. For example: criteria that use words such as 'encourage', 'minimise', 'reduce', 'improve' without quantifiable measurements on the extent to which reductions/improvements should be made.
			1	No, but can be interpreted easily	No objective information can be ascertained from the TSC, however, the TSC sufficiently provides context for understanding potential outcomes.	
			2	Yes	Objective information can be ascertained such as: <ul style="list-style-type: none"> Compliance with a regulation standard, etc. Very clearly outlined objective 	

Scorecard- Evaluation Metrics (2/2)

Evaluation metrics					
	Metrics		Score	Further Guidance	Metric objective
EM3	Does the TSC reference ESG mandatory indicators under existing UK non-financial regulation/standards/frameworks?	0	No	No ESG mandatory indicators are referenced in DNSH TSC. Note: This corresponds with 'Low' classification on the FTSE Russell document.	The EM identifies criteria that align to existing ESG requirements to minimise efforts for companies and increase transparency as data will be reported under existing ESG regulation.
		1	Yes, references indicators that are not mandatory for UK standards/frameworks	Some ESG indicators that are not mandatory in the UK are referenced in the DNSH TSC. Note: This corresponds with 'Medium' classification on the FTSE Russell document.	
		2	Yes	Some ESG mandatory indicators are referenced in the TSC. Note: This corresponds to a 'High' classification on the FTSE Russell document.	
EM4	Does the TSC reference International Standards and EU legislation	0	None	The TSC does not reference any international standards or EU legislation.	The EM evaluates whether a TSC aligns with international standards and/or EU legislation which might need to be revisited.
		1	Yes, minor revisions required	The TSC references EU legislation but not any international standards.	
		2	International standards or EU standards with clear equivalents	The TSC references both international standards and/or EU legislation, national laws, or a clear equivalent.	
EM5	Is the TSC suitable for international interoperability with other taxonomies?	0	No	The TSC is deemed non-interoperable because it does not refer to international standards or relevant equivalents to the UK.	The EM evaluates TSC that would require reference to UK regulation for enforcement in the UK. Specifically, where EU legislation or directives exist but equivalent UK legislation does not exist. The metric also considers DNSH that make use of international standards.
		1	Yes, minor revisions required	The TSC references EU legislation or other national laws which are comparable to the UK but would require substitution.	
		2	Yes	The TSC is deemed interoperable because it meets the following requirements: <ul style="list-style-type: none"> Includes international standards. References national laws Includes no standards at all 	



1. Aggregate Lens Findings

Key initial findings

The review of DNSH criteria in the EU Taxonomy revealed five key findings.

01

Too hard to understand

Some criteria are ambiguous and difficult to understand due to their length, poorly defined requirements, unclear language, and overall lack of structure.

02

Too hard to measure

Some criteria are difficult to both comply with and evaluate as they have poor or no quantitative or process-based thresholds against which performance can be measured.

03

Too hard to comply with and evidence

In many cases, DNSH thresholds have no clear references – potentially making users less likely to implement the taxonomy and eroding the overall legitimacy of the criteria.

04

Poorly integrated

DNSH criteria at present are not well integrated within the current broader reporting environment and international standards – missing an opportunity to embed taxonomy into current corporate disclosure.

05

Inconsistent and duplicative

While many DNSH are similar in essence, the variability between them can be significant. The bookends of key variables that determine the composition of DNSH (e.g. length) are broad.

Key finding deep-dive

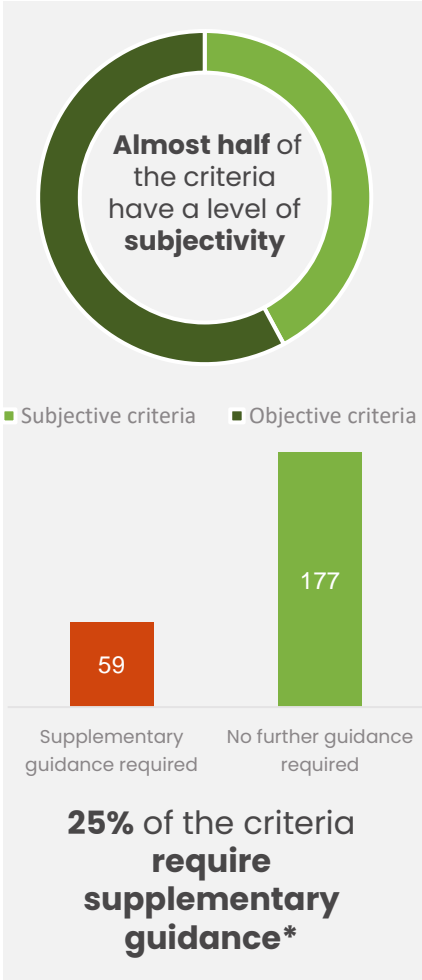
Examples

- **A2-1.1:** Forest management plan (>10 years) in accordance with national law
- **A2-1.1** -Identify and address environmental degradation risks related to preserving water quality and avoiding water stress

01

Too hard to understand

Some criteria are ambiguous and difficult to understand due to their length, poorly defined requirements, unclear language, and overall lack of structure.



Summary

The usability of DNSH is significantly eroded by the number of criteria that are poorly worded or defined, overly lengthy, and lack consistent structure.

Key opportunities

- Review of all DNSH TSC and consider use of shorter sentences and/or bullet points to increase clarity of structure
- Implement consistent structure across all DNSH criteria
- Minimise subjective language in the criteria and consider introducing principle-based definitions for classification
- Develop guidance for companies to easily interpret the criteria if a high level of complexity is required

Implications

- Difficulties in distilling requirements causes issues for reporting companies; this may lead to divergent interpretations and approaches taken to meet requirements
- Difficult to demonstrate alignment and compliance with the criteria
- Erodes overall credibility of the Taxonomy

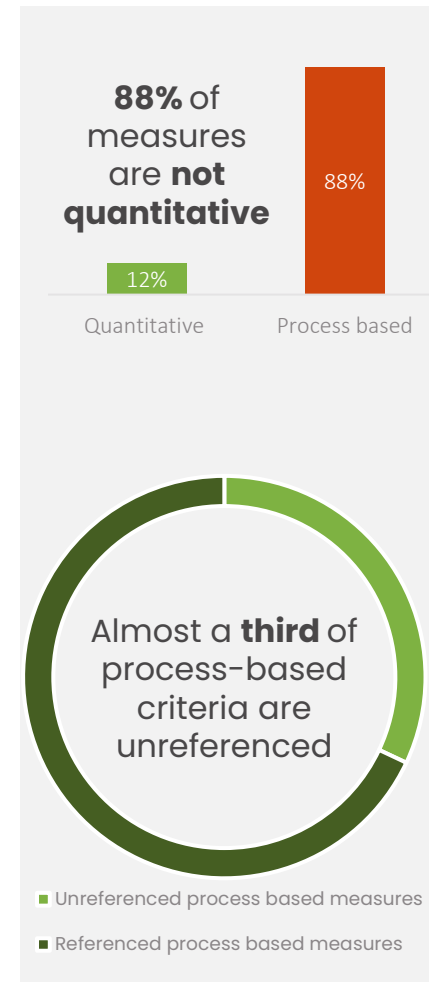
Note: * Requirement of supplementary guidance refers to providing additional direction in order to accurately understand and report the requirement.

Key finding deep-dive (cont.)

02

Too hard to measure

Some criteria are difficult to both comply with and evaluate as they have poor or no quantitative or process-based thresholds against which performance can be measured.



Examples

- **A2-1.2** : Do not result in a significant reduction of sustainable supply of primary forest biomass suitable for the manufacturing of wood products with long-term circularity potential
- **E37.00, F42.99 -5.3** : Mitigate storm water overflows

Summary

Many DNSH criteria are difficult to assess alignment with. This is due to either lack of quantitative thresholds, or poor quality process-based measures which are more open to varied interpretation. DNSH criteria are also ambition-based as opposed to clearly outlining conditions to be met, while many require supplementary guidance for increased usability and clarity. Criteria with no quantitative thresholds could reduce the applicability of these DNSH in other regions.

Implications

- Reduced consistency of reporting as end users need to use judgement for process-based DNSH criteria.
- Reduced capacity for measurement and verification for investors as reporting and alignment may differ significantly.
- Discrepancies between investors' expectations and actual effects, i.e., what companies perceive as fulfilling the criteria.

Key opportunities

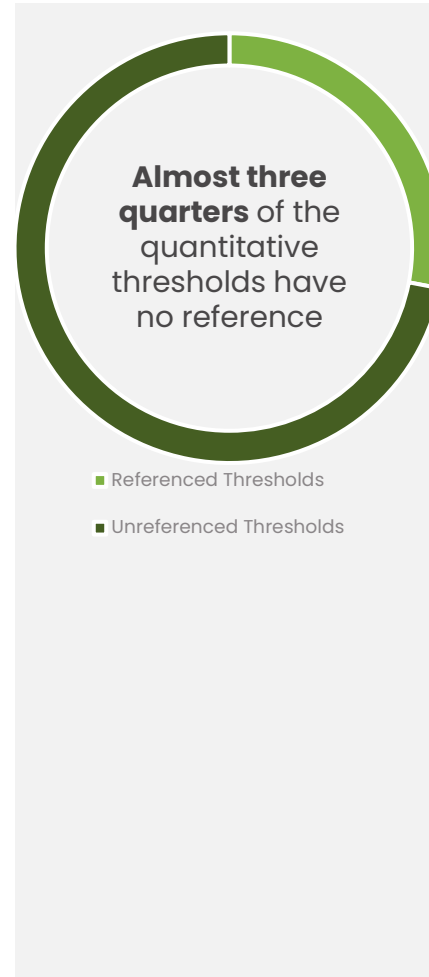
- Revisit the criteria to include quantitative thresholds aligned to specific regulations and standards to enable easy application.
- For process-based criteria without options to have quantitative thresholds, qualitative assessment can utilise the principle-based assessment with clear If/then and Yes/No diagram.
- Guidance and clarity to better assess the impact of specific activities. Clear guidance needed for DNSH criteria which include expectations like 'minimisation', 'significant' etc.

Key finding deep-dive (cont.)

03

Too hard to comply with and evidence

In many cases, DNSH thresholds have no clear references – potentially making users less likely to implement the taxonomy and eroding the overall legitimacy of the criteria.



Examples

- **D35.11, F42.22– 4.7:** Indirect GHG emissions meet the threshold (270gCO₂e/kWh)
- **C20.15–3.16** GHG emissions(218) from the manufacture of nitric acid are lower than 0,184(219) tCO₂e per tonne of nitric acid.

Summary

Many criteria that do include quantitative thresholds do not include clear references to the recommendations they are aligned to, and instead thresholds are given with no context or legitimisation. This reduces both credibility and transparency of these criteria.

Implications

- Users for which the taxonomy is voluntary are less likely to implement the Taxonomy with the reduced understanding of context. Those from whom it is mandatory to report are likely to question the validity of thresholds.
- Low usability leads to reduced legitimacy of the criteria.
- Investors will have both a reduced understanding of and trust in the Taxonomy.
- Transparency is reduced, which could cause implications relating to greenwashing.

Key opportunities

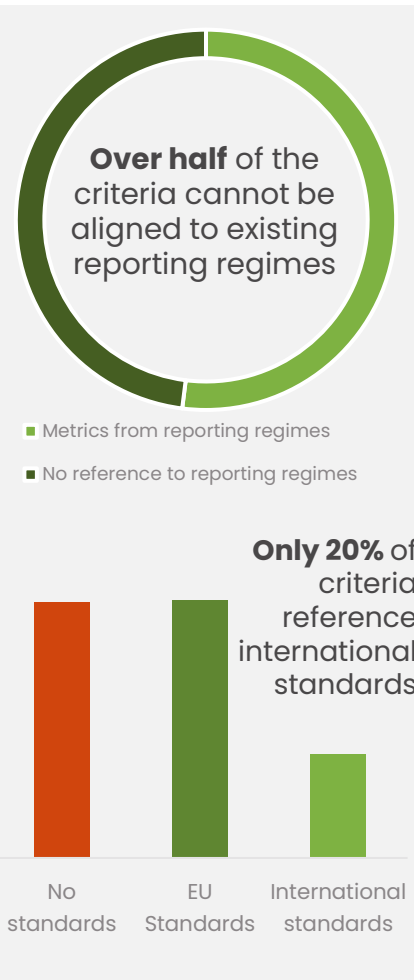
- Review the usefulness of references before adding.
- Review DNSH criteria without clear references and add references to which recommendations or documentation specify the quantitative thresholds included, aligned with international standards.
- Where references are not transparent and cannot be linked to thresholds, provide additional references to international standards and reporting guidelines which can allow for best practice.
- Consider a principles-based approach to DNSH, whereby no thresholds or references are included.

Key finding deep-dive (cont.)

04

Poorly integrated

DNSH criteria at present are not well integrated within the current broader reporting environment and international standards – missing an opportunity to embed taxonomy into current corporate disclosure.



Examples

- **E37.00, F42.99- 5.4:** Discharges to receiving water comply with Directive 91/271/EEC
- **H50.2, H52.22, N77.34-6.10-**Comply with Regulation (EU) No 1257/2013 (for existing ships above 500 gross tonnage and the new-built ones replacing them)

Summary

Many DNSH criteria centre on compliance with EU legislation or directives without providing any referencing to international standards or broader reporting regimes, which makes enforcement in other countries difficult. The thresholds mentioned within the criteria do not reflect current corporate disclosures, making it less relevant for the issuers needing further refinement.

Key opportunities

Integrating within broader reporting

- As 48% of total criteria were not aligned to ESG indicators, conduct a review to identify criteria where ESG indicators can be used as thresholds and process guidelines, aligning with existing UK and international reporting guidance, e.g., Transition Plan Taskforce, TCFD.

Integrating with international standards

- Where possible in line with UK legislation, reference international standards in addition to UK equivalent
- Extend review of international taxonomies to identify any local standards being used and map a comparison to UK/international standards to allow for broader usage.
- For jurisdictions without taxonomies, utilise international standards as the base of thresholds and process.

Implications

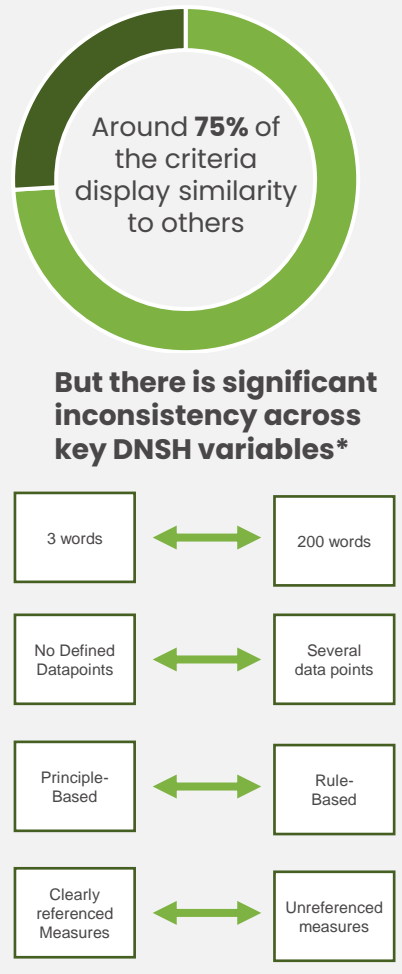
- Reduced usability of the criteria as companies are less likely to have the required data to ensure alignment if the data isn't already collated for other regulatory disclosure (e.g., TCFD, ISSB, etc.).
- Reduced international interoperability of the Taxonomy if other jurisdictions do not have equivalent local standards.

Key finding deep-dive (cont.)

05

Inconsistent and duplicative

While many DNSH are similar in essence, the variability between them can be significant. The bookends of key variables that determine the composition of DNSH (e.g. length) are broad.



Examples

- **E4 1.1-1.2:** Following conservation objectives in areas designated for conservation
- **P3 1.1-1.3:** Prevent soil and water pollution and having clean-up measures

Summary

The usability of DNSH criteria across the Taxonomy is reduced due to inconsistent and/or duplicative criteria. There is a broad spectrum of disparity across key variables – i.e. illogical inconsistency in criteria length, specificity of requirements, supplementary guidance, etc.

Key opportunities

- Seek to narrow the bookends of variability and develop high-level guidance on the ideal composition of DNSH (e.g. length, references, etc.).
- To support the above, form a view on which sectors/activities may require a different approach.
- Review criteria with similar requirements and seek to embed a consistent approach, drawing out activity nuance as required.

Implications

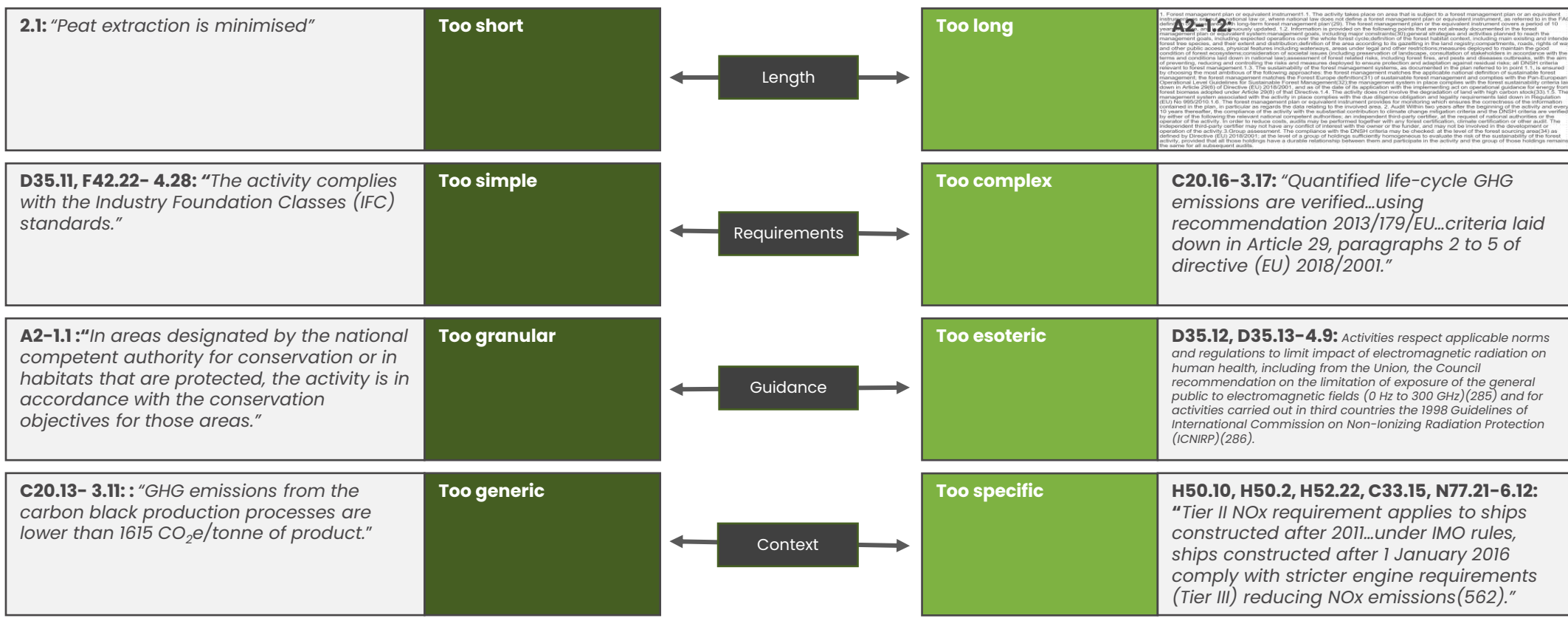
- DNSH criteria across sectors and objectives 'look' different and 'feel' different in terms of the requirements, support given to the end user, etc.
- This creates a broad and inconsistent experience of aligning to and disclosing against the taxonomy, which may leave the end user feeling confused and unsure on how best to integrate taxonomy into broader company data collection and reporting.

*more details on the following page



Key initial findings | aggregate lens

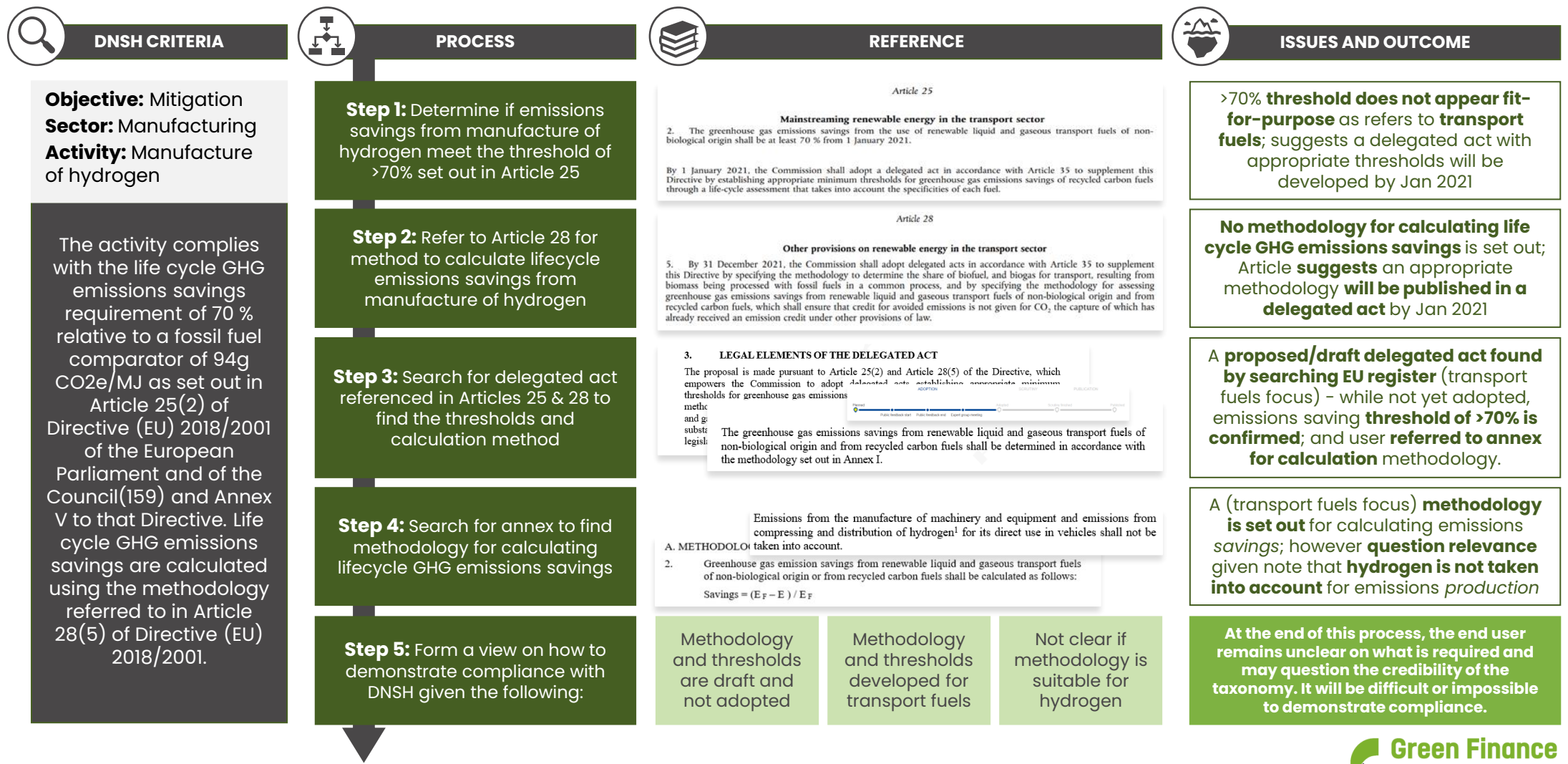
There is significant variability and inconsistency across the key factors that inform the usability of DNSH criteria. The diagram below sets out the 'bookends' of variability that exist in the EU taxonomy across key DNSH composition factors. The disparity enabled by these broad spectrums of possibility are compounded by inconsistent judgements on these factors across similar DNSH criteria. While in many cases it is likely differentiation between criteria is necessary to reflect nuances across sectors and objectives, developing a more consistent style of drafting and structuring the criteria will help to provide a better understanding of what DNSH 'looks like' and the expectations around it. Narrowing these bookends and developing a process for embedding consistency in judgements across these factors will drive the usability and robustness.



Initial findings in practice | thresholds and references



The below process-flow has been developed to highlight the usability challenges faced by end users looking to understand what is required to comply with DNSH criteria. Working through the below took approximately three hours, with the exercise returning more questions than answers on end user requirements.





2. Objective Lens Findings



Screening criteria benchmarking by objective

The screening criteria used to assess individual DNSH criteria (i.e. forming part of the scorecard) were used as filters for further insight into the evaluation metrics. The following charts display the proportion of DNSH within a given objective to which the answer was 'Yes' across key screening criteria. This highlights which objectives contain criteria that are most aligned to key intentions of the UK Taxonomy.

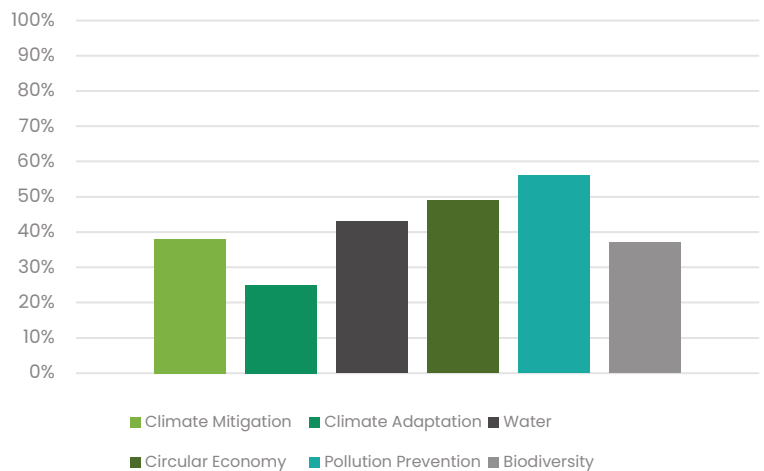
The water and circular economy objectives have the highest proportions of criteria referencing EU legislation and directives, which could affect international interoperability. However, there are cases in which EU standards referencing is suitable, hence requiring a pragmatic approach as to which could be retained.

Climate adaptation and biodiversity are entirely aligned to the UK transition pathways, while the water objective is least aligned. However, even this objective is 68% aligned, so overall, this aspect of DNSH criteria may not require as much attention.

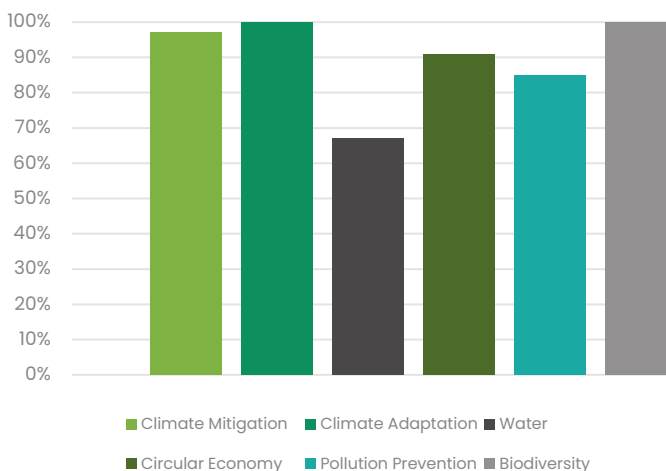
The climate adaptation and circular economy objectives include highest proportion of criteria referencing metrics from existing reporting regimes, while pollution prevention and biodiversity have the lowest with just 43 and 44% respectively. This lack of alignment could cause usability issues.

Detailed scoring against the screening criteria used to assess individual DNSH criteria (i.e. forming part of the scorecard)

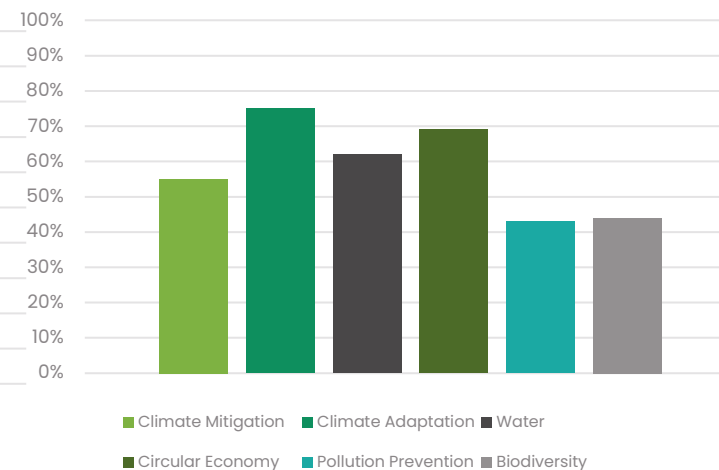
Reference to EU Legislation and Directives



Alignment to UK Transition Pathways



Inclusion of Existing Reporting Regimes



Note: as some criteria are included across multiple sectors, the total number of criteria across sectors will differ to the total number across objectives – e.g. AI within the climate adaptation objective is repeated across 9 different sectors.; Alignment with the UK Transition pathways was evaluated using the UK Government’s Greening Finance Roadmap in tandem with other key climate initiatives.

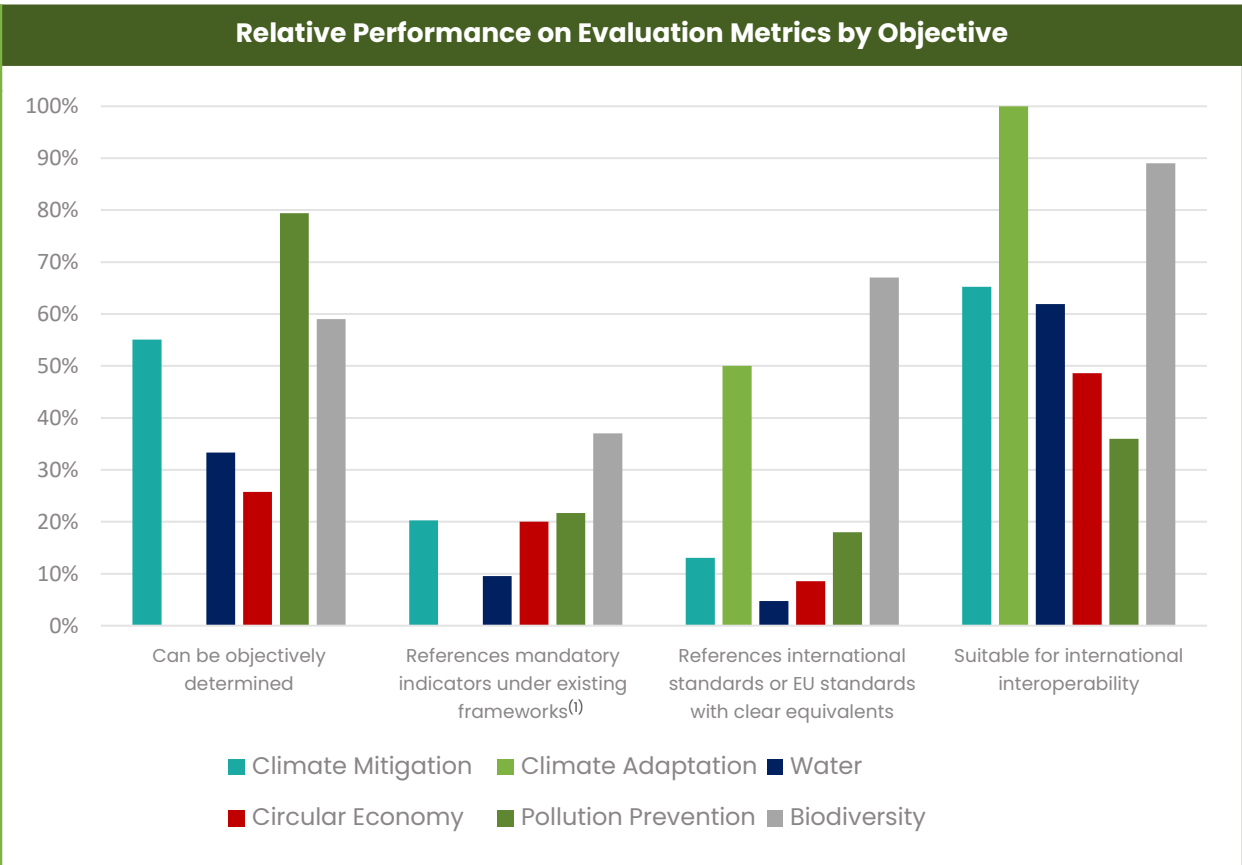


Key initial findings | objective lens

The relative performance based on evaluation metrics of DNSH criteria across the 6 objectives varies significantly and is outlined by the charts below along with key insights on specific objectives and overall performance across the 5 evaluation metrics.

Number of DNSH criteria by objective²

- 69 Climate mitigation
- 4 Climate adaptation
- 21 Water
- 35 Circular Economy
- 98 Pollution Prevention
- 27 Biodiversity



Key insights

- While climate adaptation only has 4 unique DNSH criteria, they are all subjective, causing the usability and credibility issues surrounding the application of the taxonomy.
- Only 10% of water criteria include references to mandatory ESG indicators under existing frameworks. Companies will therefore be less likely to collect and verify the data required to met these criteria.
- The biodiversity criteria well relative to others despite its low proportion of quantitative thresholds, however they could be improved by increased alignment to ESG indicators.

Note: 1) Only cases in which the indicators are mandatory were incorporated; some criteria referenced non-mandatory indicators which are not reflected **2)** Note: as all criteria are unique to their objective while some are included across multiple sectors, the total number of criteria across objectives differs to the total number across sectors – e.g. AI is only present in climate adaptation but is repeated across 9 different sectors.

Summary findings across objective areas (1/2)

The table below, and on the next page, outlines the key themes, findings and opportunities identified across the six EU Taxonomy objective areas.

	Climate Mitigation	Climate Adaptation	Water
Themes	<p>Sixty Nine DNSH criteria – themes include:</p> <ul style="list-style-type: none"> disclosure of GHG emissions within specified thresholds, monitoring carbon/methane leakages, forestation plans, fossil fuels bans, EPC certification. 	<p>Four DNSH criteria – themes include:</p> <ul style="list-style-type: none"> climate risk and vulnerability assessment, implementing adaptation solutions across a range of scenarios, avoiding negative impacts to adaptation-related activities, plans and investments. 	<p>Twenty one DNSH criteria – themes include:</p> <ul style="list-style-type: none"> addressing environment degradation risks, developing water use and protection plan, implementing measures to reduce water impacts.
Findings	<ul style="list-style-type: none"> Sixty similarities between DNSH criteria. Majority of DNSH criteria have clearly referenced processes. More than half of DNSH criteria align with UK reporting regimes making it usable for implementation. Two in every five criteria reference EU regulations. 	<ul style="list-style-type: none"> Adaptation DNSH criteria are designed to be generic and applied across all sectors. All DNSH criteria align to the UK's transition pathways. Majority of indicators reported under mandatory TCFD reporting. All DNSH criteria are internationally interoperable referencing Intergovernmental Panel on Climate Change (IPCC). 	<ul style="list-style-type: none"> Majority of DNSH criteria are process based with clear references to the basis of the process. Very few DNSH criteria align with metrics from the UK reporting regimes.
Opportunities	<ul style="list-style-type: none"> Many of the Mitigation criteria are lengthy – significant opportunity to streamline, and to amalgamate similar criteria. Include quantitative thresholds to improve the usability of DNSH criteria Reference DNSH criteria to international standards in addition to UK/local equivalent. 	<ul style="list-style-type: none"> Integrate sector characteristics into the criteria to enhance their contextual specificity. Integrating DNSH criteria with the UK's reporting regimes for better alignment. 	<ul style="list-style-type: none"> Minimise subjective language in DNSH criteria for easy interpretation. Integrate DNSH criteria into broader reporting where ESG indicators can be used as thresholds and process guidelines.

Summary findings across objective areas (2/2)

The table below, and on the previous page, outlines the key themes, findings and opportunities identified across the six EU Taxonomy objective areas.

	Circular Economy	Pollution	Biodiversity
Themes	<p>Thirty five DNSH criteria – themes include:</p> <ul style="list-style-type: none"> increased reuse and recycling, minimising peat extraction, evaluate potential risks to achieve the circular economy, best techniques for limiting waste. 	<p>Ninety eight DNSH criteria – themes include:</p> <ul style="list-style-type: none"> minimising toxicity, gas leakage, sulphur emissions, compliance to EU laws, pollution and waste handling. 	<p>Twenty seven DNSH criteria – themes include:</p> <ul style="list-style-type: none"> environmental impact assessment, noise limitation, biodiversity enhancement, mitigating invasive species and wildlife collisions.
Findings	<ul style="list-style-type: none"> Multiple instances of similarity between DNSH criteria. Circular economy criteria are all process based with no reference to quantitative thresholds. Most DNSH criteria align with UK environmental goals including metrics from UK reporting regimes – more usable for implementation. 	<ul style="list-style-type: none"> Around three quarters of DNSH criteria align with UK environmental goals, but only half align to metrics from UK reporting regimes. More than half of the requirements reference EU legislation or directives. Around one in five references link to international standards. 	<ul style="list-style-type: none"> Many criteria reference EU regulation or standards, and only a few include international standards, making this objective less internationally interoperable. All the criteria are process based with no reference to quantitative thresholds.
Opportunities	<ul style="list-style-type: none"> Improve usability of the criteria with clear definitions and benchmarking values. Provide references to international standards where the criteria link to EU specific directives. 	<ul style="list-style-type: none"> Integrate DNSH criteria with broader reporting where ESG indicators can be used as thresholds and process guidelines. Provide references to international standards where the criteria link to EU specific directives. 	<ul style="list-style-type: none"> Inclusion of more references to international standards for international interoperability. Align more DNSH criteria to ESG indicators for increased usability.

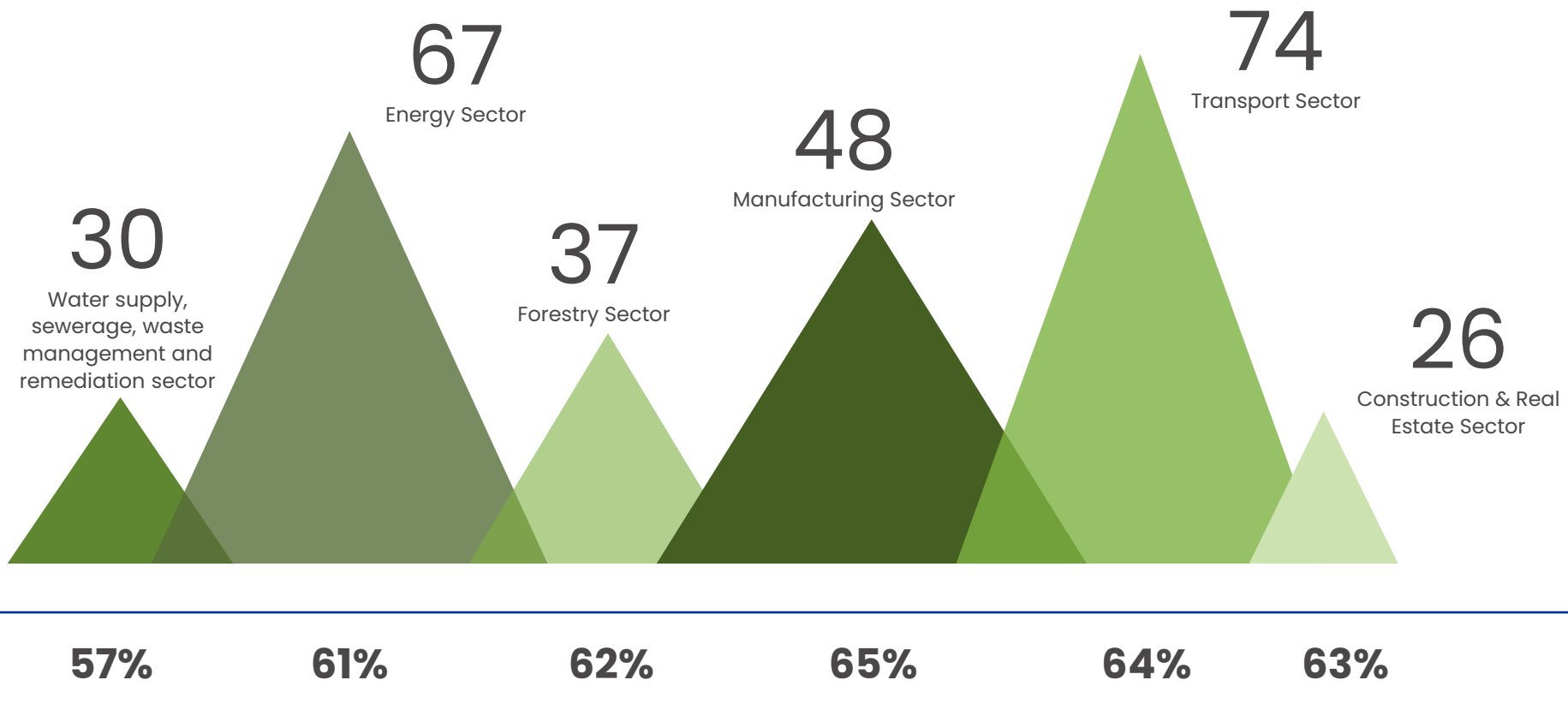


3. Sector Lens Findings



DNSH criteria are unevenly distributed across sectors

Analysis across the six largest sectors (by # DNSH criteria) reveals a significant difference in number of relevant DNSH criteria, alignment to relevant evaluation metrics, and implications for peripheral sectors and activities.

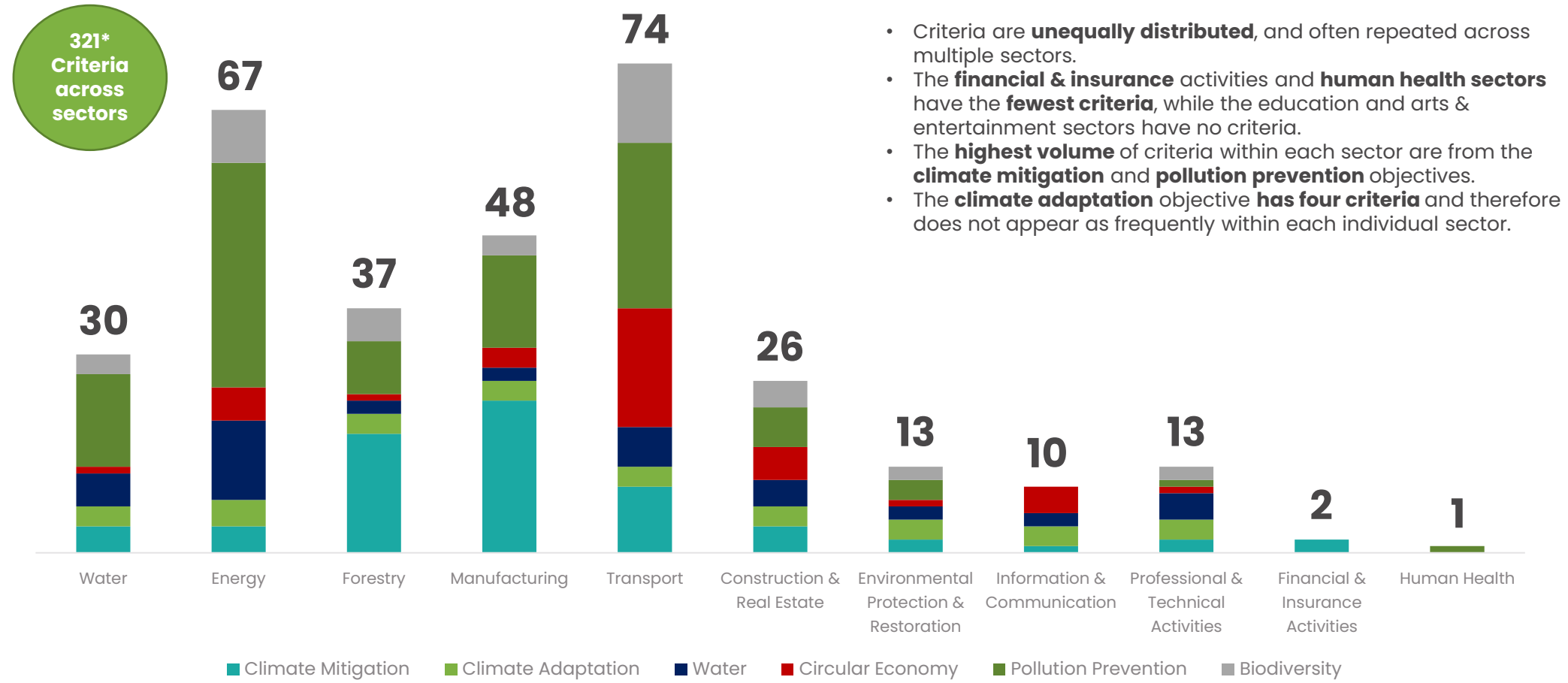


Note: The % alignment scores consider the number of "0"s, "1"s and "2"s scored for each sector out of the relevant maximum score (i.e. a score of "2" for every criteria).



DNSH criteria are unevenly distributed across sectors

Analysis across the 11 sectors with DNSH criteria reveals a significant difference in the number of relevant DNSH criteria, and differing splits within each individual objective.



- Criteria are **unequally distributed**, and often repeated across multiple sectors.
- The **financial & insurance** activities and **human health sectors** have the **fewest criteria**, while the education and arts & entertainment sectors have no criteria.
- The **highest volume** of criteria within each sector are from the **climate mitigation** and **pollution prevention** objectives.
- The **climate adaptation** objective **has four criteria** and therefore does not appear as frequently within each individual sector.

*Across all objectives with each criteria counted once, there is a total of 254 criteria, while across all sectors there are 321 criteria. This is due to the fact that some criteria are included across multiple sectors. – e.g. AI within the climate adaptation objective is repeated across 9 different sectors.

Screening criteria benchmarking by sectors



The following charts display the proportion of DNSH screening questions for key sectors that score a '2' (highest possible score) across screening criteria. This highlights which sectors' criteria are closest aligned to the key intentions of the UK Taxonomy.

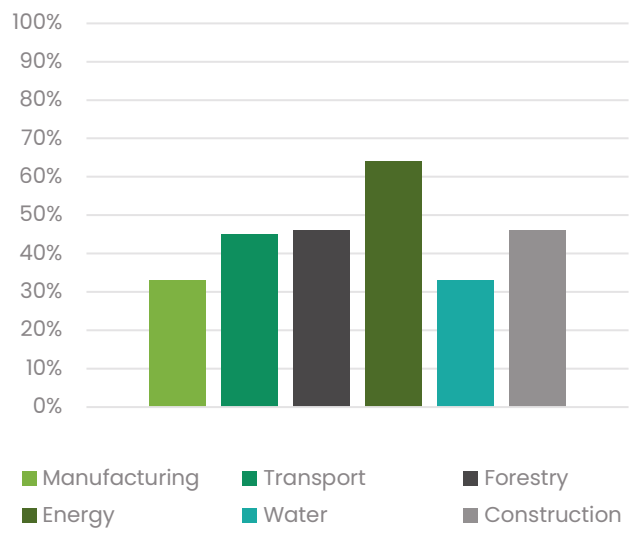
Across all sectors, 46% of the criteria reference EU legislation and directives.
Although many criteria will require amendments to be suitable for the UK, some EU standards will align with the UK Taxonomy intent. There is an opportunity for pragmatism here, to retain the link to EU or international standards.

Across all sectors, 90% of the criteria align to UK transition pathways.
The intention behind the majority of the criteria are well aligned to the UK's climate agenda, so this key element of the criteria may not require as much revision.

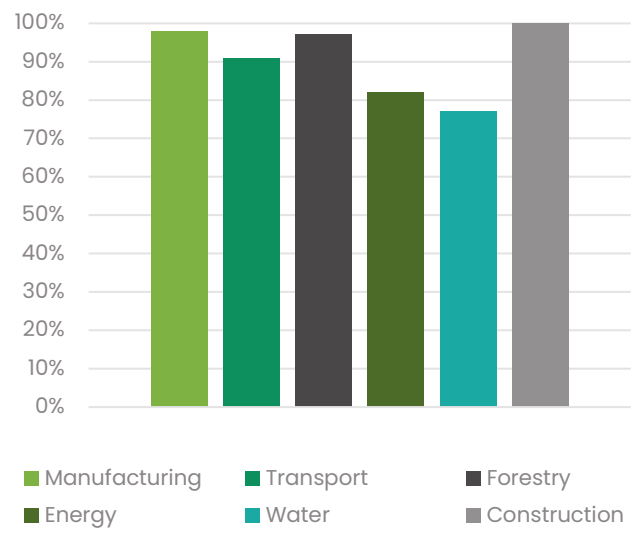
Across all sectors, 55% of the criteria include metrics from existing reporting regimes.
This lack of alignment will cause usability issues for companies who may struggle to collect or verify the data required. This could also affect international interoperability.

Detailed scoring for screening questions for key sectors:

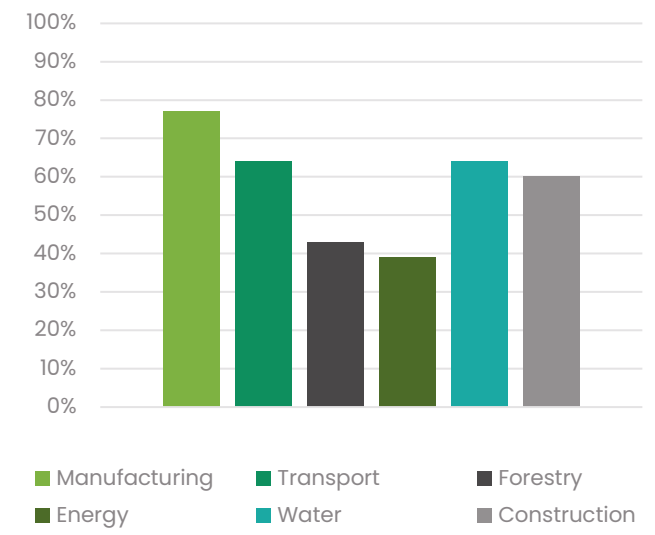
References EU Legislation or Directives



Align to UK transition pathways



Includes metrics from existing regimes



Note: as some criteria are included across multiple sectors, the total number of criteria across sectors will differ to the total number across objectives – e.g. A1 within the climate adaptation objective is repeated across 9 different sectors

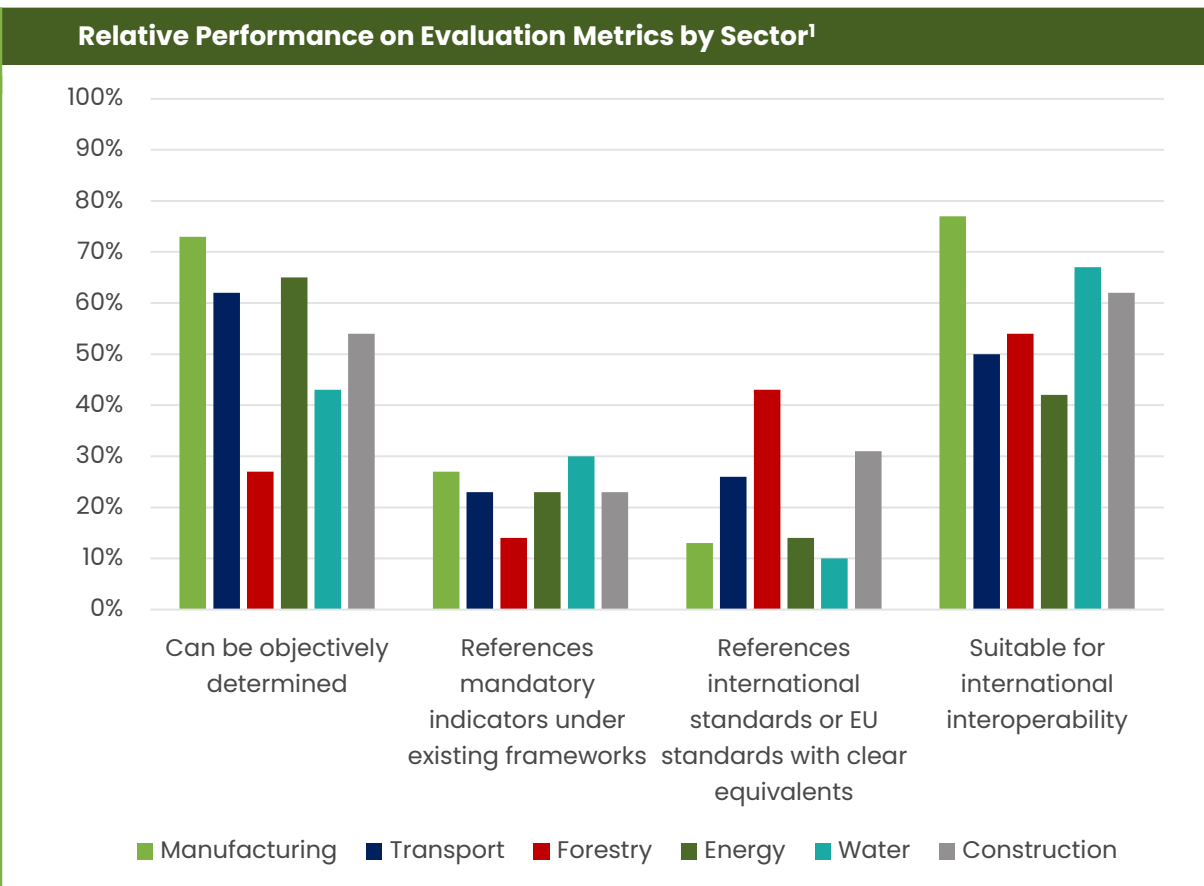
Evaluation metric benchmarking by sectors



The relative performance based on evaluation metrics of DNSH criteria for sectors varies significantly and is outlined by the chart below along with key insights on specific sectors and overall performance across four screening criteria.

Number of DNSH Criteria by sector² (total 282)

- 48 Manufacturing
- 74 Transport
- 37 Forestry
- 67 Energy
- 30 Water Supply, Sewerage, Waste Management & Remediation
- 26 Construction & Real Estate



Key insights

- Alignment with mandatory ESG indicators was lowest in the forestry sector, reducing the usability of these criteria as companies are less likely to collect and verify the required data.
- The water and manufacturing sectors reference the fewest international or EU standards with clear equivalents, potentially reducing their applicability in other regions.
- The manufacturing sector performs well in relation to its international interoperability and objectivity, implying the foundation of good criteria. However they could benefit from an increase in alignment to ESG indicators.

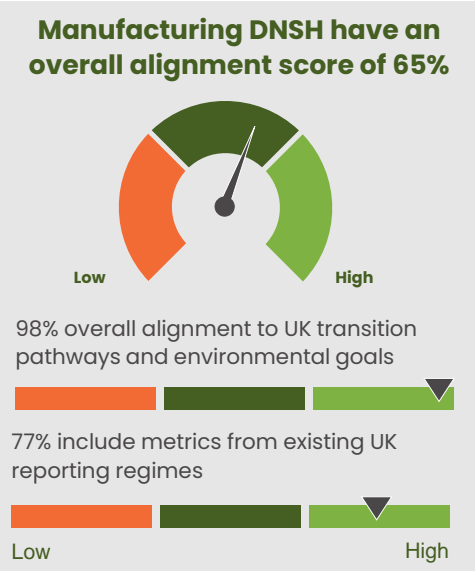
Note: 1) DNSH criteria were spliced by sector and compared against each evaluation metric. The graphs above show the percentage of criteria reporting a score of 2 which is the highest possible. e.g. 72% of the 48 manufacturing DNSH criteria can be objectively determined. This means that criteria not or partially achieving these questions is not included.
2) as some criteria are included across multiple sectors, the total number of criteria across sectors will differ to the total number across objectives – e.g. A1 within the climate adaptation objective is repeated across 9 different sectors.

Manufacturing

Scoring key		
Low	Medium	High

There are **48** DNSH criteria aligned to manufacturing

Manufacturing is the second largest contributor to CO₂e emissions but can be a fundamental part of the low-carbon economy. Certain products and technologies enable the transition to net-zero by contributing to GHG emissions reductions in other sectors.



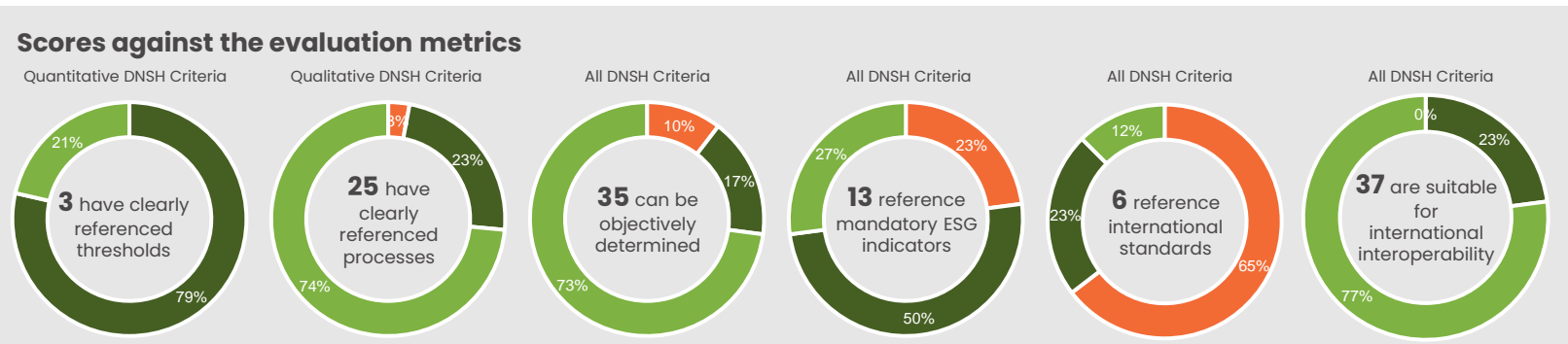
Key Findings

- Majority of DNSH criteria within manufacturing are process based and have clear references.
- Most DNSH criteria with quantitative thresholds do not reflect references from standards or legislations.
- A vast proportion of DNSH criteria can be objectively determined with only few not having clear Yes/No outcomes.
- Half of DNSH criteria are aligned to non-mandatory ESG indicators under existing UK regulations.
- A significant number of DNSH criteria are suitable for international interoperability.

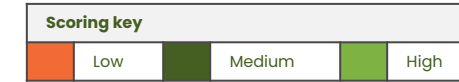
Key opportunities

- Where possible, integrate more references to international standards within DNSH to promote level comparisons on performance.
- Utilise more UK-mandatory ESG indicators to drive homogenous usage across manufacturing parties.
- Conduct a review of DNSH criteria aligned to EU legislation/ directives for UK or international alignment.

- 71% DNSH criteria process based
- 77% similar to other DNSH criteria
- 98% with readily available data
- 33% with EU legislation/directive
- 19% need supplementary guidance

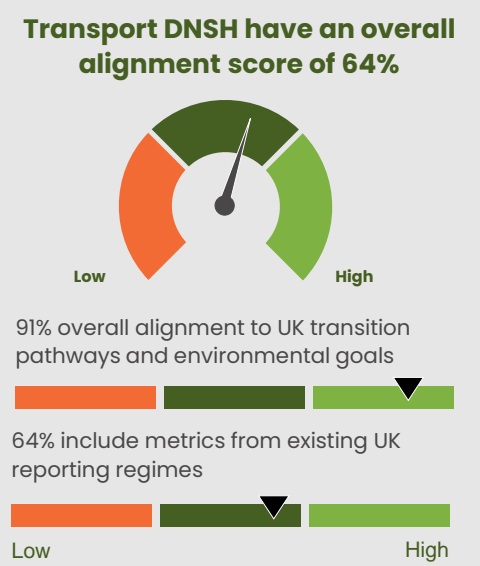


Transport



 There are **74** DNSH criteria aligned to Transport.

The transportation sector is the largest source of greenhouse gas (GHG) emissions in the UK and is the most polluting sector. Transport sector contributes 31% of the UK's total emissions.








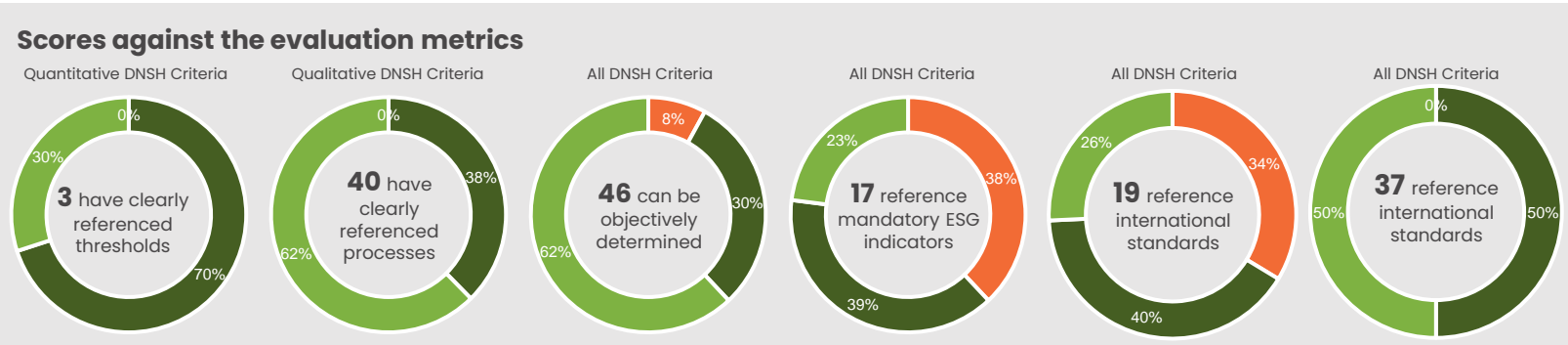
Key Findings

- Majority of DNSH criteria in transport sector are process based and a vast proportion are clearly referenced.
- Some DNSH criteria are integrated to reflect the UK's mandatory corporate disclosure with a similar number referring to non-mandatory indicators.
- A sizeable amount of them refer to EU laws
- Half of the DNSH criteria align with international standards like International Maritime Organization- International Convention for the Prevention of Pollution from Ships (IMO MARPOL) which increases the usability and international alignment.

Key opportunities

- Consider alignment of DNSH criteria across corporate disclosure practices.
- Increasing international alignment would gain investor confidence and help in better integration.
- Conduct a review of DNSH criteria aligned to EU legislation/directives for UK or international alignment.

-  86% DNSH criteria process based
-  70% similar to other DNSH criteria
-  89% with readily available data
-  45% with EU legislation/directive
-  23% need supplementary guidance

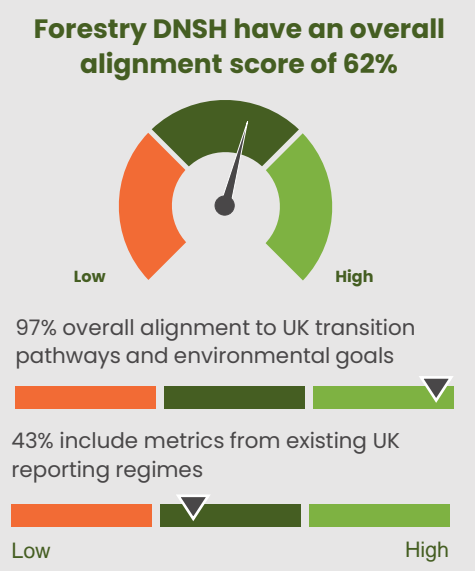


Forestry



 There are **37** DNSH criteria aligned to Forestry.

Forests play a crucial role in carbon management. Of the 31,380 sq. km (12,120 sq. mi) of forest in Britain, around 30% is publicly owned and 70% is in the private sector. UK Government committed to substantial new tree planting - including funding as part of the £750m Nature for Climate Fund.








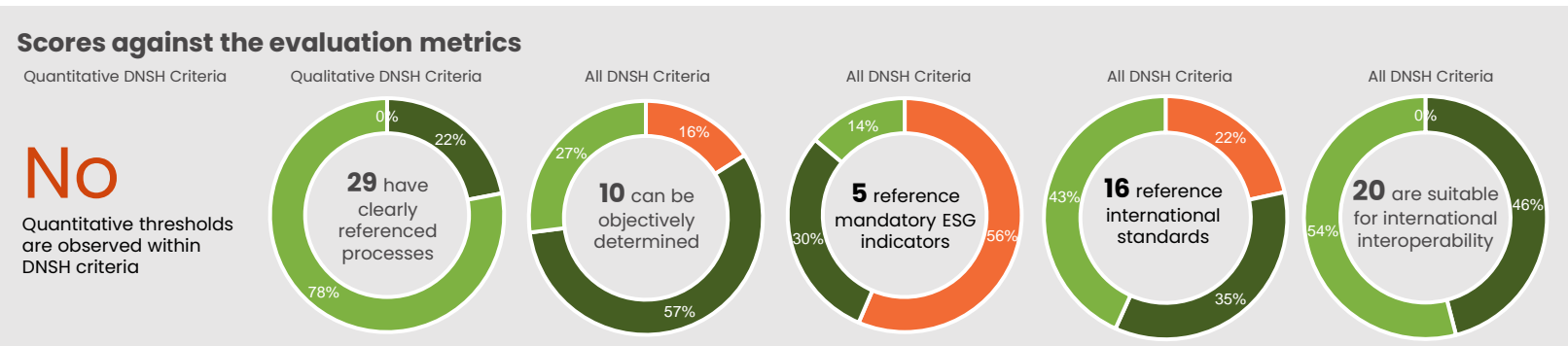
Key Findings

- All DNSH criteria described qualitative process-based information; none covering any quantitative data.
- Few DNSH reference metrics align with existing UK-based reporting regimes
- A low reference to ESG indicators and reference standards in DNSH criteria is observed. This correlates to a lower percentage of DNSH that can be objectively determined.
- More than half of them cross refer to EU laws

Key opportunities

- Consider standardisation of DNSH criteria across corporate disclosure practices.
- Integrate more international standards and substitute EU regulations for increased international interoperability.
- Conduct a review of DNSH criteria aligned to EU legislation/directives for UK or international alignment.

-  100% DNSH criteria process based
-  73% similar to other DNSH criteria
-  81% with readily available data
-  46% with EU legislation/directive
-  22% need supplementary guidance

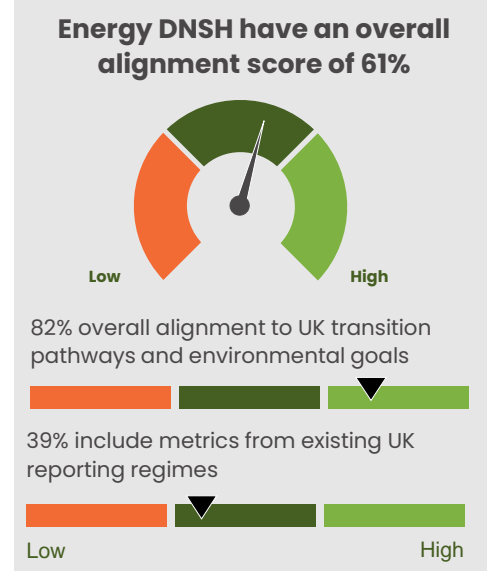


Energy

Scoring key		
Low	Medium	High

There are **67** DNSH criteria aligned to Energy.

Energy supply is the second-largest contributor to greenhouse gas emissions, contributing 24% of the UK's emissions. Electrification of heat and transport is a critical enabler of the UK's net-zero carbon economy.



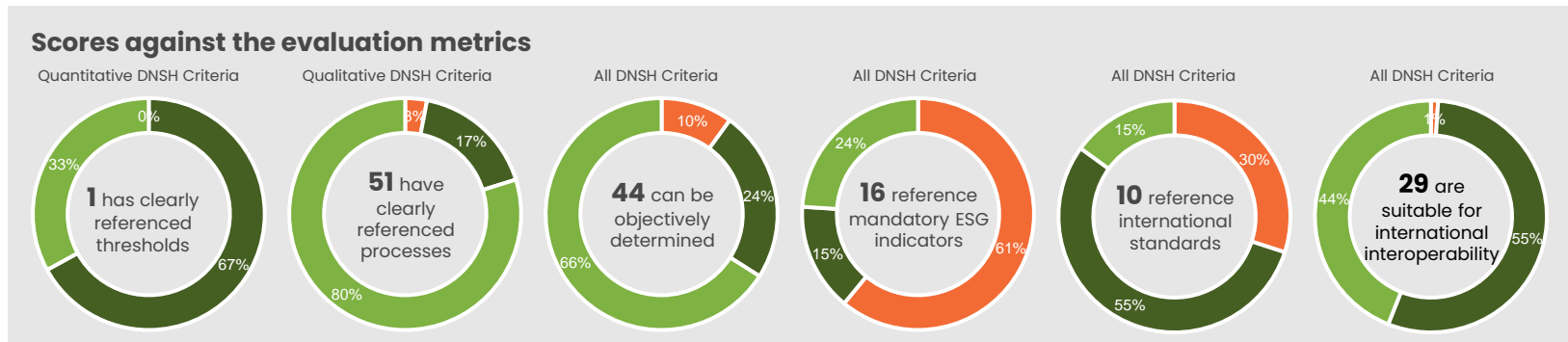
Key Findings:

- Almost all of the DNSH criteria in energy sector are process based and many of them are clearly referenced.
- Quantitative thresholds where present lack alignment with clear references.
- More than half of the DNSH criteria cross refer to EU regulations.
- Only a quarter of the DNSH criteria are integrated to reflect the UK's mandatory corporate disclosure practices, reducing credibility for end users.

Key opportunities


- Conduct a review of DNSH criteria aligned to EU legislation/directives for UK or international alignment.
- Consider standardisation of DNSH criteria across corporate disclosure practices.
- Quantitative DNSH criteria could be revisited to increase alignment with clearly references.
- Increasing international alignment would gain investor confidence.

- 95% DNSH criteria process based
- 58% similar to other DNSH criteria
- 85% with readily available data
- 64% with EU legislation/directive
- 17% need supplementary guidance

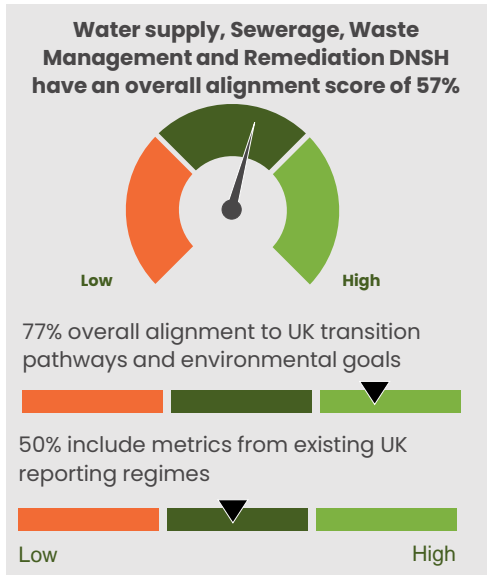


Water supply, sewerage, waste management and remediation



 There are **30** DNSH criteria aligned to Water supply, Sewerage, Waste Management and Remediation.

Water, Sewerage, Waste and Remediation contributes a small share to total greenhouse gas emissions but solid waste management has a great potential to trigger greenhouse gas emission reductions through collection, reuse and recycling.



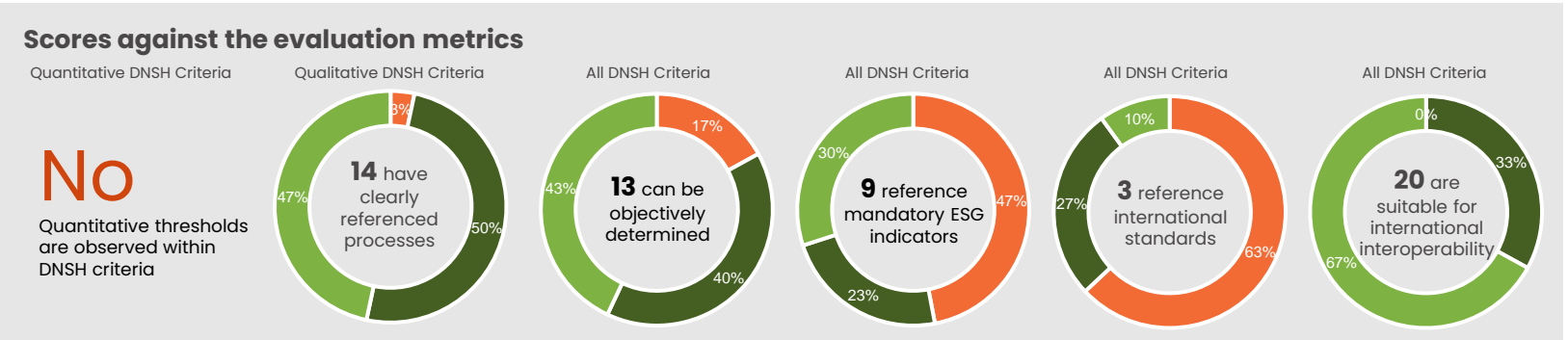
Key Findings

- All DNSH are process-based with almost half of them containing clear references to the process itself.
- However, almost half of the DNSH criteria do not have clear references to any ESG indicators.
- Less than half of the DNSH are easy to interpret and have objective yes/no outcomes.

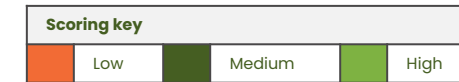
Key opportunities

- Consider standardisation of DNSH criteria across corporate disclosure practices.
- Increase interoperability by driving more information from reliable benchmarking/threshold sources as “retrofits” on some existing DNSH.
- Conduct a review of DNSH criteria aligned to EU legislation/directives for UK or international alignment.

- 100% DNSH criteria process based
- 53% similar to other DNSH criteria
- 73% with readily available data
- 33% with EU legislation/directive
- 43% need supplementary guidance

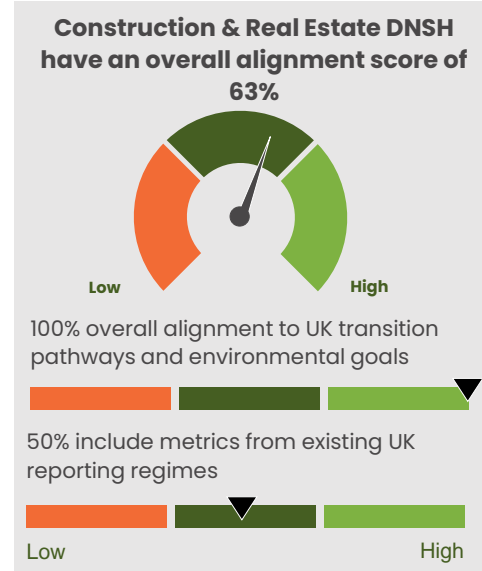


Construction and real-estate



 There are **26** DNSH criteria aligned to Construction & Real Estate.

The UK's built environment, including commercial and residential buildings, is responsible for 25% of the UK's greenhouse gas emissions. As well as decarbonising heat, reducing construction-related emissions in the construction of buildings if the UK is to meet net zero.



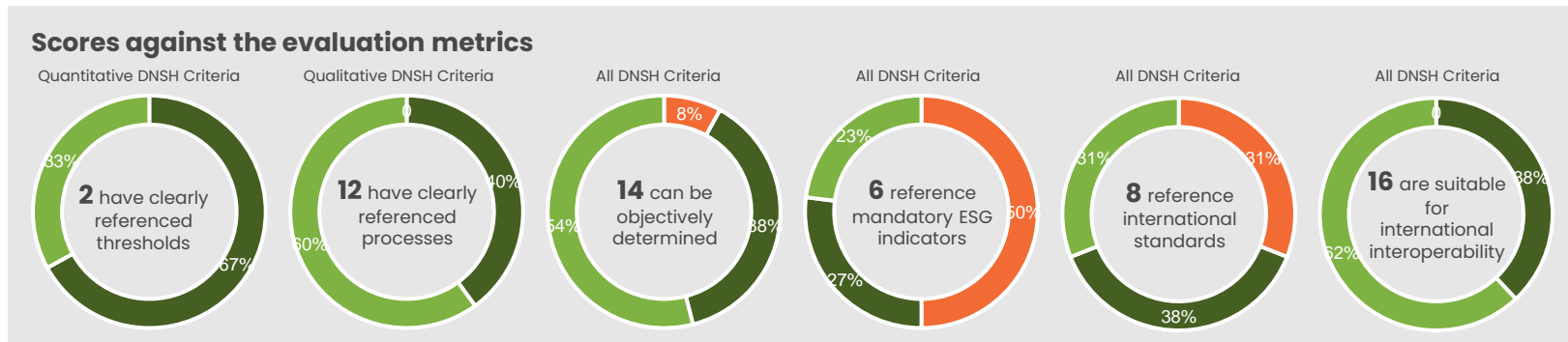
Key Findings

- More than three quarters of the DNSH criteria are process based and a third of the quantitative thresholds are clearly referenced.
- Around half of the DNSH criteria can be objectively determined.
- More than half of the DNSH criteria were referenced to ESG indicators.
- Almost all DNSH criteria are suitable for international interoperability directly or with minor revisions.

Key opportunities

- Minimise subjective language in the DNSH criteria for easy interpretation.
- Conduct a review to identify DNSH criteria where ESG indicators can be used as thresholds.
- Conduct a review of DNSH criteria aligned to EU legislation/directives for UK or international alignment.

- 77% DNSH criteria process based
- 54% similar to other DNSH criteria
- 92% with readily available data
- 46% with EU legislation/directive
- 27% need supplementary guidance



Other sectors

Environmental restoration and protection activities

Alignment score 63%



Key Findings:

- 100% of DNSH criteria within the sector are process based, and 62% align to the EU regulations.
- There is scope to increase the international alignment with minor revisions.

Information and communication

Alignment score 59%



Key Findings:

- DNSH is mapped across all objectives except pollution and restoration.
- All the DNSH criteria are process based with 60% of them clearly referenced.
- More than half of the criteria are subjective and not mapped to ESG indicators.
- Scope to increase international alignment by incorporating more international standards.

Professional, scientific and technical activities

Alignment score 49%



Key Findings:

- Activities are emerging and have DNSH mapped across all objectives.
- All the DNSH criteria are process based with more than 60% of them clearly referenced.
- Majority of the criteria are subjective and not mapped to ESG indicators.
- Supplementary guidance could be provided on how emerging activities can be assessed for potential risks.

Financial and insurance activities

Alignment score 40%



Key Findings:

- DNSH criteria is mapped to climate mitigation objective covering two requirements.
- Both the DNSH criteria are suitable for international operability with no references to EU regulations or international standards.

Human health and social work activities

Alignment score 60%



Key Findings:

- DNSH criteria is mapped to pollution prevention objective covering a requirement around waste management plan.
- The DNSH criteria is suitable for international operability.



Key Design Considerations

Opportunities to streamline and increase the usability of DNSH in the UK Green Taxonomy

This diagram provides a framework to prioritise the opportunities identified through this analysis.

It sets out some of the opportunities across four quadrants, ranging from 'high impact, high effort', through to 'low impact, low effort'.

The opportunities on this page were considered when preparing recommendations. Not all opportunities were incorporated into the recommendations, but could be considered in the future.

Legend			
	Usability Opportunities		Streamlining Opportunities



Key design questions emerging from the review

The opportunities on this page were considered when preparing recommendations. Not all opportunities were incorporated into the recommendations, but could be considered in the future.

01

Should DNSH be aligned to activity descriptions or be based on a set of principles underpinned by thresholds?

- Is there scope for a hybrid model – e.g. a set of high-level generic DNSH principles for each objective, with sector or activity specific thresholds on an as-needed basis

02

To what extent should broader ESG indicators / standards be integrated?

- What is the role of the UK Taxonomy in the broader ecosystem of frameworks?
- What mechanisms and controls are needed to optimise flows between key frameworks, e.g. SFDR, TCFD?

03

What are the suitable parameters for key DNSH variables?

- Would it be preferable to have less prescriptive and detailed criteria with more guidance, or more prescriptive and detailed criteria theoretically requiring less guidance?

04

How should robustness be considered in DNSH?

- Is robustness an outcome of increased usability?
- How should compliance with DNSH be verified?
- What governance is required to maintain best practice?

05

What should the approach to international interoperability for DNSH be?

- To what extent does the UK want to align, prioritise, etc. with other jurisdictions?

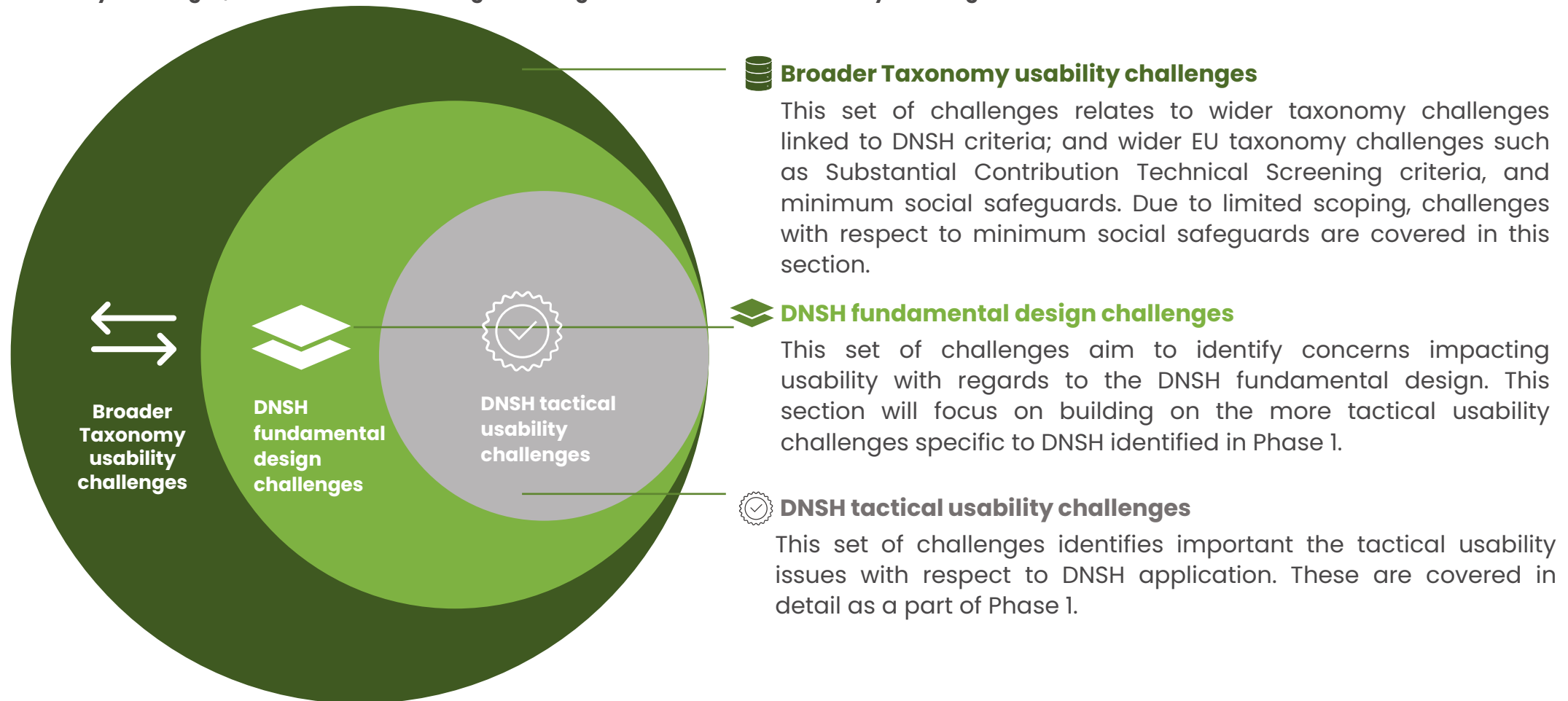
References- EU DNSH Mapping

1. Platform on Sustainable Finance EU taxonomy recommendations: [Platform on Sustainable Finance's recommendations on data and usability of the EU taxonomy \(europa.eu\)](#)
2. GTAG document on development of UK Green taxonomy: [GTAG: Advice on the development of a UK Green Taxonomy](#)
3. Usability of EU taxonomy: [Ensuring the usability of the EU Taxonomy](#)
4. EU taxonomy usability issues: [Addressing EU taxonomy usability issues](#)
5. APPG ESG Green taxonomy report: [APPG-ESG-Green-Taxonomy-full-report-November-2022-final.pdf \(appgesg.org\)](#)
6. DNSH and MSS in EU taxonomy: [Do No Significant Harm' and 'Minimum Safeguards' in Practice Navigating the EU Taxonomy Regulation](#)

Appendix C: Review of broader usability concerns with the EU taxonomy, in the context of DNSH

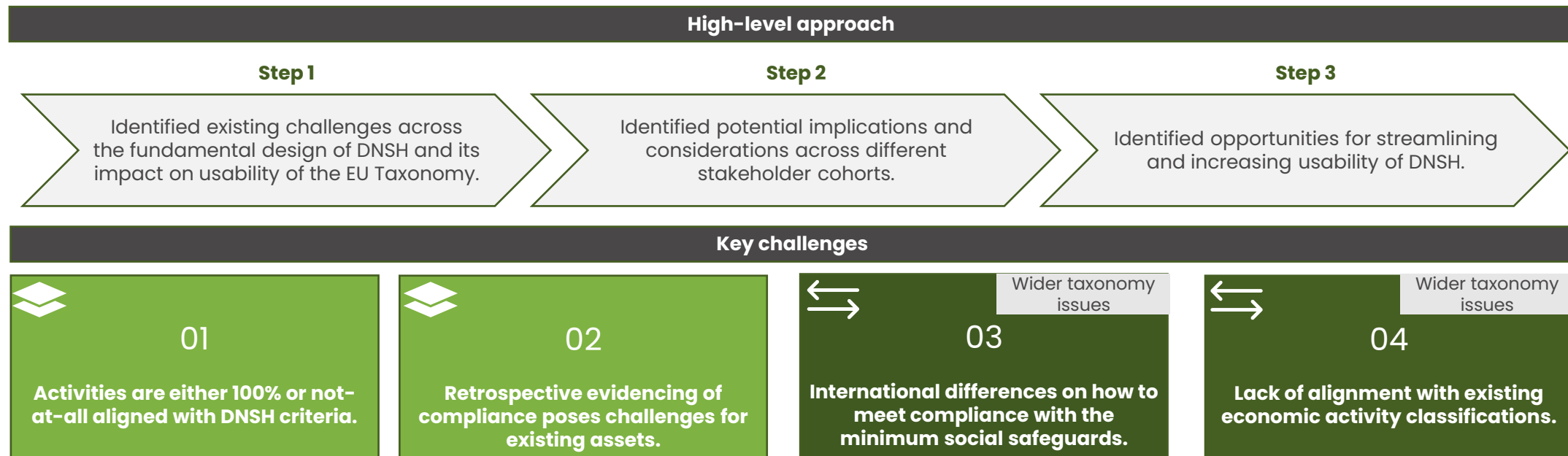
Unpacking the layers of Taxonomy challenges

This section unpacks the different layers of Taxonomy challenges, which are classified into three layers based on usability concerns : Broader Taxonomy usability challenges, DNSH fundamental design challenges and DNSH tactical usability challenges.



Overview of approach & key findings of the broader usability research

The objective of this research is to identify key challenges impacting usability with regards to the broader fundamental design of the DNSH and minimum social safeguards. The challenges with respect to DNSH are building on the more from tactical usability challenges specific to DNSH identified in Phase 1. This chapter sets out key insights against the four key challenges identified through desktop research.



Notably, the **desktop review reaffirmed the DNSH usability challenges identified as part of Phase 1** – echoing that there is significant opportunity to streamline and increase the usability of DNSH criteria. In many cases, **DNSH usability challenges compound or enable the effects of the broader EU Taxonomy challenges** set out in this chapter. For example – the ability of end users to demonstrate 100% alignment with EU Taxonomy is significantly impaired by usability challenges associated with DNSH criteria being too hard to measure, comply with, and evidence.



Key challenge 1: Activities are either 100% or not-at-all aligned with DNSH criteria



Would a risk-based approach to DNSH disclosures increase usability by enabling a more nuanced view of alignment with the objectives of the UK Taxonomy?

Rec #1

Confirm the purpose of, approach to and definition of DNSH

Rec #2

Improve transparency of extent to which DNSH criteria are met

Rec #3

Establish functional design parameters for drafting DNSH TSC

Rec #4

Streamline EU DNSH TSC to improve usability

Rec #5

Guidance to complement DNSH reporting

Rec #6

Advocate for new approach internationally

The 'all or nothing' approach to DNSH criteria disclosure, whereby failing to demonstrate compliance with one DNSH criteria means no alignment can be claimed, risks reducing the transparency of taxonomy reporting, denying useful information to the market.

Challenge:

The current design of the EU Green Taxonomy is underpinned by an 'all or nothing' approach to alignment – by failing to demonstrate compliance with an element of TSC (substantial contribution, DNSH, MSS), a company is unable to disclose if it aligned to the SC component and how many DNSH components it met. Although GTAG agrees it is correct that this activity cannot be classed as taxonomy-aligned, it still leads to valuable information being lost to market.

The ability of end users to demonstrate alignment is impaired by a number of factors that can exist alone or in combination:

- Lack of capacity and capability to interpret stringent DNSH criteria requirements
- Lack of data availability to evidence alignment
- Only partial alignment with DNSH criteria

Potential Implications:

- **Low taxonomy alignment** due to a lack of sufficient data to evidence compliance to DNSH.
- **Misdirected capital flows** where binary compliance design prevents nuanced visibility over firm performance.
- **Stifled innovation** in activities that align with SC TSCs but not with DNSH criteria. This is often due to limited sectoral/value chain information and lack of appropriate methods for developing thresholds on critical emerging technologies.
- **Inconsistent and incomparable disclosures** driven by a lack of available data – prompting end users to use estimates, bespoke methodologies, and develop views on 'equivalent information'
- **Difficult to verify and regulate as different third-party data providers providing different outcomes** due to variability in databases and methodologies adopted to assess compliance.
- **Increased market-anxiety** related to real or perceived accusations of greenwashing where taxonomy alignment is claimed.

Considerations for the UK:

Review current approach to DNSH disclosure:

- **Consider limiting the binary nature of the tests** – including assessing the feasibility of: disaggregated taxonomy disclosure; and a proportionate risk-based due diligence approach; or a 'comply or explain' DNSH approach.
- **Consider if/where flexibility on disclosure requirements may be required** (e.g. where sufficient methodologies have not been developed, where projects are innovative or complex, etc.).

Should an alternative approach be adopted, prepare robust and pragmatic guidance for:

- Usage of third party data and estimates in disclosure to promote consistent reporting
- End user disclosure requirements (noting a optimised and phased out approach should go some way in addressing need)

Sources: The taxing test of the EU Taxonomy <https://www.invesco.com/emea/en/insights/the-taxing-test-of-the-eu-taxonomy.html>;
Platform's usability recommendations https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf;
*Ensuring the usability of EU Taxonomy <https://www.icmagroup.org/assets/GreenSocialSustainabilityDb/Ensuring-the-Usability-of-the-EU-Taxonomy-and-Ensuring-the-Usability-of-the-EU-Taxonomy-February-2022.pdf>

Alternative approaches to the taxonomy and DNSH disclosure

- Rec #1**
 Confirm the purpose of, approach to and definition of DNSH
- Rec #2**
 Improve transparency of extent to which DNSH criteria are met
- Rec #3**
 Establish functional design parameters for drafting DNSH TSC
- Rec #4**
 Streamline EU DNSH TSC to improve usability
- Rec #5**
 Guidance to complement DNSH reporting
- Rec #6**
 Advocate for new approach internationally

	Approach for Taxonomy disclosure	Approach for DNSH disclosure considering 100% alignment with Substantial contribution technical screening criteria against the environmental objective	
	Disaggregated disclosure of taxonomy alignment	‘Comply or explain’ approach to disclosure of DNSH alignment	Risk-based due diligence approach to disclosure of DNSH alignment
Description	Disaggregated disclosure of taxonomy alignment involves breaking-down taxonomy alignment into a matrix setting out each of the key components: Environmental objective, substantial contribution Technical screening criteria, DNSH, and minimum social safeguards. An overall taxonomy score is still assigned, however this approach allows a percentage view breakdown so there is visibility on what may be driving lack of alignment.	Under a “comply or explain” approach, end users provide the compliance against DNSH alignment ; and set out a rationale/justification for where alignment has not been achieved along with mitigation plans for the future. This is distinct from the due-diligence approach described to the right as there is no materiality or risk-based lens.	Under a risk-based due-diligence approach, disclosure requirements are informed by risk associated with DNSH criteria for the activity. Depending on the risk materiality level determined through a due diligence, end users disclose a percentage alignment in combination with remediation plans to address the risk identified. Risk-based due diligence can be conducted through audits, questionnaires and/or analysis of evidence-based information.
Process	Step 1: Determine the level of alignment against the three overarching conditions of the Taxonomy Step 2: Assign a score based on the level of fulfilment of the conditions per Taxonomy requirements.	Step 1: Determine the compliance for each DNSH criteria Step 2: Report on DNSH criteria which have met the compliance and explain the rationale for DNSH criteria where compliance is not met.	Step 1: Determine the risks applying a materiality lens through due diligence process for DNSH criteria Step 2: Based on risk level determined through due diligence, disclose % alignment of DNSH criteria and remediation plans where required.
Pros & cons	<ul style="list-style-type: none"> ✓ Provides increased visibility over performance and aids transparency for investors and regulators ✗ Does not provide option to explain where requirements are not met or propose remediation 	<ul style="list-style-type: none"> ✓ Mirrors comply explain regime for transition plans and ISSB before becoming mandatory in the future. ✗ Harder for investors to ascertain the level of granularity of future commitments 	<ul style="list-style-type: none"> ✓ Provides a more nuanced view of performance ✓ Flexibility for end users and strong synergies with general risk management (e.g. scenario analysis) ✗ May increase disclosure and regulatory burden
Global	South Africa: Disclosure is done at individual activity level. Scorecard allows for aggregate of DNSH alignment to be shown as a percentage although final compliance still requires full alignment of DNSH.	Thailand: Disclosure requires evidence of compliance and its absence can be supplemented with an explanation in the form of a deficiency correction plan.	Malaysia: Disclosure on RAG scale and clarity on risk-reduction is through user-level data only.

Sources: Platform’s usability recommendations https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf; The EU Taxonomy for sustainable finance: FAQs for financial market participants <https://www.bloomberg.com/professional/blog/the-eu-taxonomy-for-sustainable-finance-faqs-for-financial-market-participants/>; South Africa Taxonomy document: [SA Green Finance Taxonomy – 1st Edition.pdf \(treasury.gov.za\)](https://www.treasury.gov.za/publications/2022/06/24/green-finance-taxonomy-1st-edition.pdf); Malaysia Taxonomy document: [Climate+Change+and+Principle-based+Taxonomy.pdf \(bnm.gov.my\)](https://www.bnm.gov.my/images/stories/2022/06/24/green-finance-taxonomy-1st-edition.pdf); Russia taxonomy document: [https://www.fsb.ru/en/press-releases/2022/06/24/green-finance-taxonomy-1st-edition.pdf \(fsb.ru\)](https://www.fsb.ru/en/press-releases/2022/06/24/green-finance-taxonomy-1st-edition.pdf). * More details in the Review of International Approaches to DNSH found in [Appendix C](#)



Key challenge 2: Retrospective evidencing of compliance is difficult for existing assets



Will “equivalent information” guidance resolve the issues of unavailability of data requirements for existing assets? Or is retrospective evidencing required?

Retrospective evidencing of compliance poses a challenge to evidence alignment of existing assets. Drafting of pragmatic guidance on how firms can use historical data to meet the requirements of DNSH criteria for existing assets would increase Taxonomy alignment.

Challenge:

The EU Taxonomy currently applies to both future investments and existing assets. This retrospective evidencing of compliance poses a set of challenges for existing assets:

- In many cases it is **not possible for investments to be mapped to DNSH criteria** because data availability is inadequate.
- Where investments can be retrospectively mapped, historical **data to evidence DNSH compliance is often not available.** (e.g. consultation with stakeholder on water management).
- **There is inconsistent information given across taxonomy objectives** for evidencing retrospective compliance – e.g. DNSH under the Adaptation objective must be complied with within five years of identification of associated climate risks. For other objectives it is unclear – it is assumed compliance requirements are consistent across new and existing assets.

Potential Implications:

- **Low taxonomy alignment** driven by poor data availability, in particular across the value-chain (e.g. scope 3 emissions required under the Climate Mitigation objective) which are less likely to have been collected for older assets.
- **Interpretation of retrospective requirements is often unclear** leading end users to adopt a cautious approach to taxonomy alignment.
- **Use of bespoke methodologies or ‘equivalent information’** to address difficulties in retrospective alignment leads to inconsistent and incomparable disclosures – reducing the overall transparency of the taxonomy.
- **Disproportionate burden on end users including increased cost of compliance** considering highly resource intensive nature of this exercise.

Considerations for the UK:

- **Consider harmonisation of the requirements** to enable reporting for existing assets and reduce regulatory burden given the global nature of financial systems (this has been mapped out as a key priority within the UK’s 2023 Green Finance strategy)
- **Review current approach and options for ‘retrospective evidencing’ requirements for existing assets** – an optimised approach could include disaggregated disclosure that recognises the degree of Taxonomy alignment.
- **If introducing a phase in disclosure approach, there’s potential for UK Taxonomy to allow data proxy until data gaps can be filled. On this condition, develop pragmatic guidance** about how firms can align taxonomy with some existing assets³. e.g. a) usage of proxies and relevant equivalent information b) (e.g. equivalent international standards); b) environment metrics could be assessed by using modelling and estimates notably for metrics like Scope 3 emissions for value chain.

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Rec #2
Improve transparency of extent to which DNSH criteria are met

Rec #3
Establish functional design parameters for drafting DNSH TSC

Rec #4
Streamline EU DNSH TSC to improve usability

Rec #5
Guidance to complement DNSH reporting

Rec #6
Advocate for new approach internationally

Sources: Recommendations for reviewing the EU Taxonomy for UK application <https://www.irsg.co.uk/assets/Papers/IRSG-Recommendations-for-reviewing-the-Taxonomy-for-UK-application-May-2021.pdf>; Platform’s usability recommendations https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf; Addressing EU taxonomy usability issues <https://www.unpri.org/eu-taxonomy/addressing-eu-taxonomy-usability-issues/11088.article>; Ensuring the usability of EU Taxonomy <https://www.icmagroup.org/assets/GreenSocialSustainabilityDb/Ensuring-the-Usability-of-the-EU-Taxonomy-and-Ensuring-the-Usability-of-the-EU-Taxonomy-February-2022.pdf> EU green Taxonomy- evolution from implementation <https://www.natwest.com/corporates/insights/sustainability/eu-green-taxonomy.html>



Key challenge 3: International differences on how to meet compliance with the minimum social safeguards

Is MSS compliance useful or relevant and if so, how should it be applied and reported against?



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Advocate for new approach internationally

Compliance with Minimum Social Safeguards is challenging due to inadequate or non-existent corporate due diligence processes and difficulties evidencing against UNGPs and OECD guidelines. Clear guidance that leverages existing frameworks will help unlock increased usability and alignment.

Challenge:

Minimum Social Safeguards (MSS) compliance is conducted at an entity level. This leads to challenges in scope and application of MSS reporting requirements¹ (i.e. standards embedded in the OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights):

- **Environmental sustainability is assessed at the activity level** which leads to a misalignment when MSS requirements are considered.
- In the EU, compliance with MSS is proved by reporting against the above international standards and conducting a human rights due diligence.
- Data on MSS **frequently is not publicly available** and, depending on the maturity of the company, might not be available at all.
- **Laws within all countries** may not consider alignment with UNGC/OECD.

Potential Implications:

- **Given MSS due diligence is not mandated, compliance with MSS is low.** A requirement for entities to report first under the CSRD (ahead of FIs) may address this, by requiring entities to undertake human rights due diligence.
- **Company data to assess MSS do not always align** (e.g. reported policies, metrics and remediation plans) with the requirements described within the UNGPs and OECD Guidelines leading to non compliance with MSS.
- **Proving compliance at activity level is difficult** because a number of standards referred to require the implementation of MSS at entity level – mapping back to activity level is extremely difficult and in most cases not possible.

Considerations for the UK:

- **UK regulation does not mandate due diligence** which may drive low compliance. There may be an opportunity to require human rights due diligence in the UK (as the EU has done through CSRD) to drive compliance with MSS.
- **Formulating a database of reliable external sources** (e.g. World Benchmarking Alliance) for reference where due diligence is not implemented and for assurance purposes.
- **Leverage and consider alignment with existing frameworks and requirements**, such as the UK Modern Slavery Act disclosures to embed consistency, reduce compliance costs and increase taxonomy alignment.
- **Managing data requirements for both DNSH criteria and MSS compliance is very onerous.** Market interactions have revealed interest in consolidating MSS and DNSH criteria into one reporting requirement.

Sources: Final report of Minimum social safeguards https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf; Testing the application of EU taxonomy to core banking products [Testing-the-application-of-the-EU-Taxonomy-to-core-banking-products-EBF-UNEPFI-report-January-2021.pdf](https://www.nordea.com/en/news/eu-taxonomy-minimum-safeguards-what-are-they-and-why-do-they-matter); *EU Taxonomy Minimum Safeguards: What are they and why do they matter? <https://www.nordea.com/en/news/eu-taxonomy-minimum-safeguards-what-are-they-and-why-do-they-matter>; Recommendations for reviewing the EU Taxonomy for UK application [IRSG-Recommendations-for-reviewing-the-Taxonomy-for-UK-application-May-2021.pdf](https://www.rsg.com/insights/recommendations-for-reviewing-the-taxonomy-for-uk-application-may-2021.pdf)



Key challenge 4: Lack of alignment with existing economic activity classification

Is a review of existing economic activity classification practices required to ensure the taxonomy is fit-for-purpose?



The use of NACE classifications for economic sectors brings additional complexities in classification of projects. Instead, using SIC codes would enhance harmonisation of activities given the UK's adoption of SIC classification system.

Challenge:

The use of Nomenclature of Economic Activities (NACE) classification to identify eligibility poses several multifaceted usability challenges:

- **NACE is incompatible with other classification systems:** A single project requires classification under multiple NACE codes which makes project-level identification of classification challenging.
- **NACE codes are not used everywhere:** Non-EU based banks, and some EU banks, use the International Standard Industrial Classification of All Economic Activities (SIC codes) for their internal classification, rather than NACE which is also a derived classification from ISIC*.
- **Mapping NACE against other systems is very complex:** Many EU-based banks also use a national classification system requiring to develop a complex mapping leading to additional difficulties in classifying economy activities consistently across portfolios*.

Potential Implications:

- **Identifying significant harm would require a wider view than single NACE codes.** Where NACE codes have multiple activities under them or activities have no NACE codes, classification of projects can be challenging
- **Incompatibility of NACE codes makes assessment at an international level very challenging.** end users with other classification systems would find alignment exercises time consuming and resource intensive.
- **Variance in disclosure and reporting requirement because of** complexity of mapping between NACE codes and other national classification system.

Considerations for the UK:

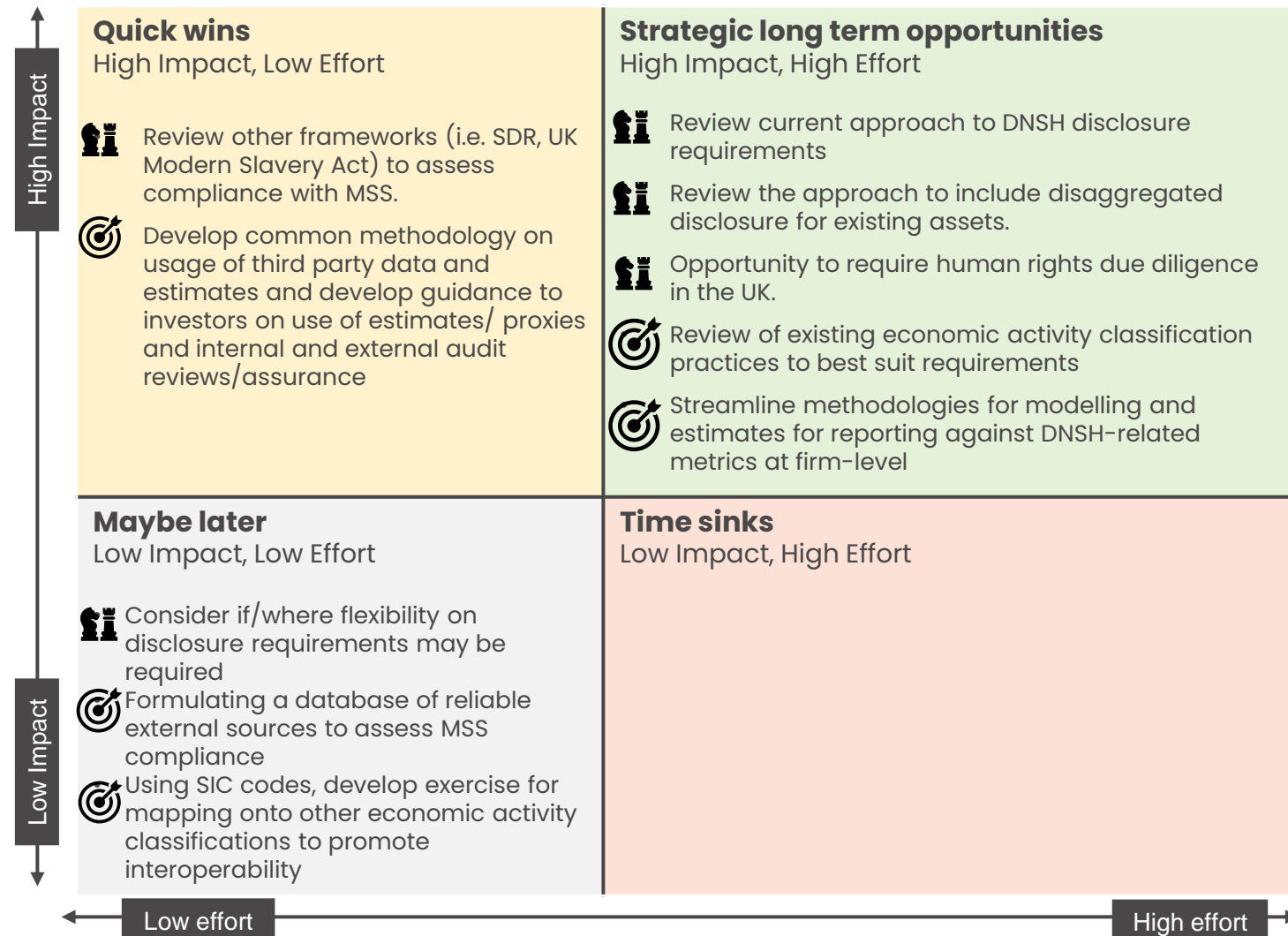
- **Review other existing economic activity classification practices to best suit requirements** (e.g. Bloomberg Industry Classification Standard, Industrial Classification of All Economic Activities)
- **Consider mapping NACE codes** to existing classification standards that will help prospective users of the Taxonomy locate the activities they carry out among those which are included and described in the Taxonomy.
- **Ensure NACE codes mapped to SIC codes** for use in the UK.

Sources: Platforms usability recommendations https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf *Testing the application of EU taxonomy to core banking products [Testing-the-application-of-the-EU-Taxonomy-to-core-banking-products-EBF-UNEFPF-report-January-2021.pdf](https://www.icmagroup.org/assets/GreenSocialSustainabilityDb/Ensuring-the-Usability-of-the-EU-Taxonomy-February-2022.pdf) Ensuring the usability of EU Taxonomy <https://www.icmagroup.org/assets/GreenSocialSustainabilityDb/Ensuring-the-Usability-of-the-EU-Taxonomy-February-2022.pdf> Should EU Taxonomy broaden its horizons http://www.citigroup.com/emeaemailresources/gra34767_Taxonomy_Extension_A4_v3.pdf

Key opportunities to streamline the design and implementation along with increasing the usability of DNSH criteria

The opportunities on this page were considered when preparing recommendations. Not all opportunities were incorporated into the recommendations, but could be considered in the future.

Legend			
	Design and implementation opportunities		End-usability opportunities



References – Usability of EU taxonomy

1. The taxing test of the EU Taxonomy <https://www.invesco.com/emea/en/insights/the-taxing-test-of-the-eu-taxonomy.html>
2. Platform’s usability recommendations https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf
3. Ensuring the usability of EU Taxonomy <https://www.icmagroup.org/assets/GreenSocialSustainabilityDb/Ensuring-the-Usability-of-the-EU-Taxonomy-and-Ensuring-the-Usability-of-the-EU-Taxonomy-February-2022.pdf>
4. Recommendations for reviewing the EU Taxonomy for UK application <https://www.irsg.co.uk/assets/Papers/IRSG-Recommendations-for-reviewing-the-Taxonomy-for-UK-application-May-2021.pdf>
5. Addressing EU taxonomy usability issues <https://www.unpri.org/eu-taxonomy/addressing-eu-taxonomy-usability-issues/11088.article>
6. Final report of Minimum social safeguards https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf
7. Testing the application of EU taxonomy to core banking products [Testing-the-application-of-the-EU-Taxonomy-to-core-banking-products-EBF-UNEFPF-report-January-2021.pdf](#)
8. EU Taxonomy Minimum Safeguards: What are they and why do they matter? <https://www.nordea.com/en/news/eu-taxonomy-minimum-safeguards-what-are-they-and-why-do-they-matter>
9. The EU Taxonomy for sustainable finance: FAQs for financial market participants <https://www.bloomberg.com/professional/blog/the-eu-taxonomy-for-sustainable-finance-faqs-for-financial-market-participants/>
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12. South Africa Taxonomy document: [SA Green Finance Taxonomy – 1st Edition.pdf \(treasury.gov.za\)](#)
13. Malaysia Taxonomy document: [Climate+Change+and+Principle-based+Taxonomy.pdf \(bnm.gov.my\)](#)
14. Russia taxonomy document: <https://b36.pf/files/?file=1ede59eb104185e24280ee57cf3156c6.pdf> (xn--90ab5f.xn--plai)

Appendix D: Review of international approaches to DNSH

Key findings from International Review

01

The purpose and use cases of DNSH vary based on overall taxonomy objective with some serving as financial institution guidance while others forming the basis of an entire ecosystem of disclosures, regulations, and schemes

02

Risk-based approaches to disclosing alignment with DNSH provide greater visibility over DNSH and consequent levels of ambition

03

DNSH is widely observed as a necessary requirement for taxonomy alignment, with most requiring some form of DNSH compliance to evidence alignment

04

Other approaches have been taken, such as DNSH involving prerequisite compliance with international standards as a 'gate'

05

Jurisdictions have had success in simplifying the EU DNSH by removing repetition & reducing the number and length of criteria – allowing for easier collection and reporting of data

Note: * DNSH is a broad term used to encompass DNSH criteria, and DNSH principles throughout the International research section. They are specifically defined with context to avoid confusion. For example: "High-level DNSH principles" and "Granular DNSH-criteria". These are further explained on the following pages.

Despite divergent global approaches to taxonomy, most tend to have six elements in common

Green taxonomies all aim to encourage investments in activities that tackle climate change or deliver environmental improvement. Though the design approach and implementation for taxonomies vary by jurisdiction, there tend to be six key elements consistent across all. Variations across these levers change the nature of each taxonomy, but not the fundamental purpose.

Broad reading and review was undertaken on 39* approaches to international taxonomies to inform the jurisdictions selected for high-level comparative analysis. Based on the outcomes of this analysis, four jurisdictions were progressed for deep-dive analysis.

Scope

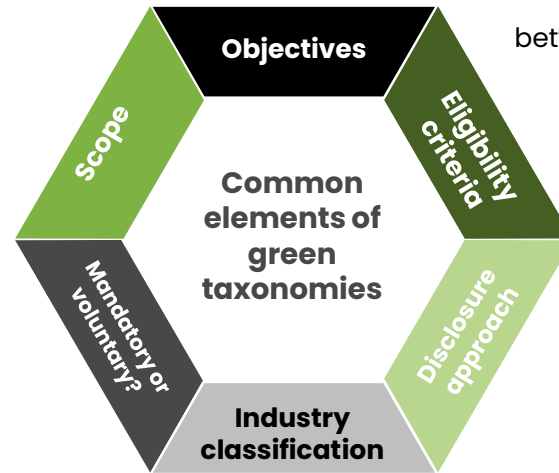
Sectors and activities covered differ significantly and are often dependent on taxonomy objectives and local context.

Mandatory or voluntary

The EU taxonomy is mandatory for EU entities and includes a number of disclosure requirements. The China taxonomy is mandatory for issuance of green bonds. Many other taxonomies are proposed as guidance and are not binding.

Industry classification

Taxonomies use a variety of industry classification codes, e.g. NACE, ISIC etc.



Objectives

Climate change mitigation is the primary objective across the taxonomies. Use of other objectives differ significantly between jurisdictions and are determined by specific local requirements.

Eligibility Criteria

Criteria for eligibility will often be different across jurisdictions and link to local regulations and standards. These can vary as well depending on focus-area.

Disclosure approach

Taxonomies worldwide have different approaches to activities that do not fully align with some applying a traffic light system instead of a binary green/non-green decision.

Varied international approaches to taxonomy drive different conceptualisations of DNSH

The purpose of this research is to **highlight international approaches to DNSH given the intrinsic variability in the structure of the taxonomy itself.** For example:

- Having a risk based approach to classifying assets (e.g. using RAG labels) trickles down at a DNSH criteria level.
- Jurisdiction ambition and ESG data-health are directly related to whether DNSH criteria are implemented as principles-based or thresholds-specific.

*As per GTAG analysis, a total of 39 taxonomies were assessed, which represents the comprehensive count as of March 2023.

A review of international approaches to DNSH has identified key areas of differentiation

Five key areas of differentiation have been identified, which are specific to a DNSH lens but applicable to taxonomies at-large.

Do No Significant Harm (DNSH) criteria are a key part of most Green Taxonomies. They are designed to ensure that an activity that meets the requirements of SC TSCs to one environmental goal does not act to the detriment of another.

We have considered five variables that affect the design of each taxonomy's DNSH criteria, and used these factors to investigate DNSH criteria across a range of international jurisdictions.



01

How complex are DNSH criteria?

DNSH can have differing types of designs. This changes their detail, legislative links or robustness.

02

Is DNSH required for taxonomy alignment?

Some jurisdictions require complete adherence with every aspect of DNSH criteria but others treat DNSH as a risk-assessment transparency tool.

03

What are the disclosure requirements for reporting against DNSH?

Reporting against taxonomies can be either mandatory or voluntary. In both instances, entities may also be required to report DNSH information on either a voluntary or mandatory basis, as detailed on the next page. In general, where DNSH forms part of the taxonomy, market participants will need to report against them to comply with the taxonomy requirements.

04

How Internationally interoperable are DNSH criteria?

DNSH criteria vary in their interoperability – with some tailored primarily to domestic regulation, and others using a variety of international standards. Many regimes use a combination of the two.

05

How granular are the data requirements?*

The data requirements for DNSH compliance vary considerably – with some requiring particularly granular activity data and others relying on compliance against conceptual frameworks.

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Rec #4

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Rec #5

Guidance to complement DNSH reporting

Rec #6

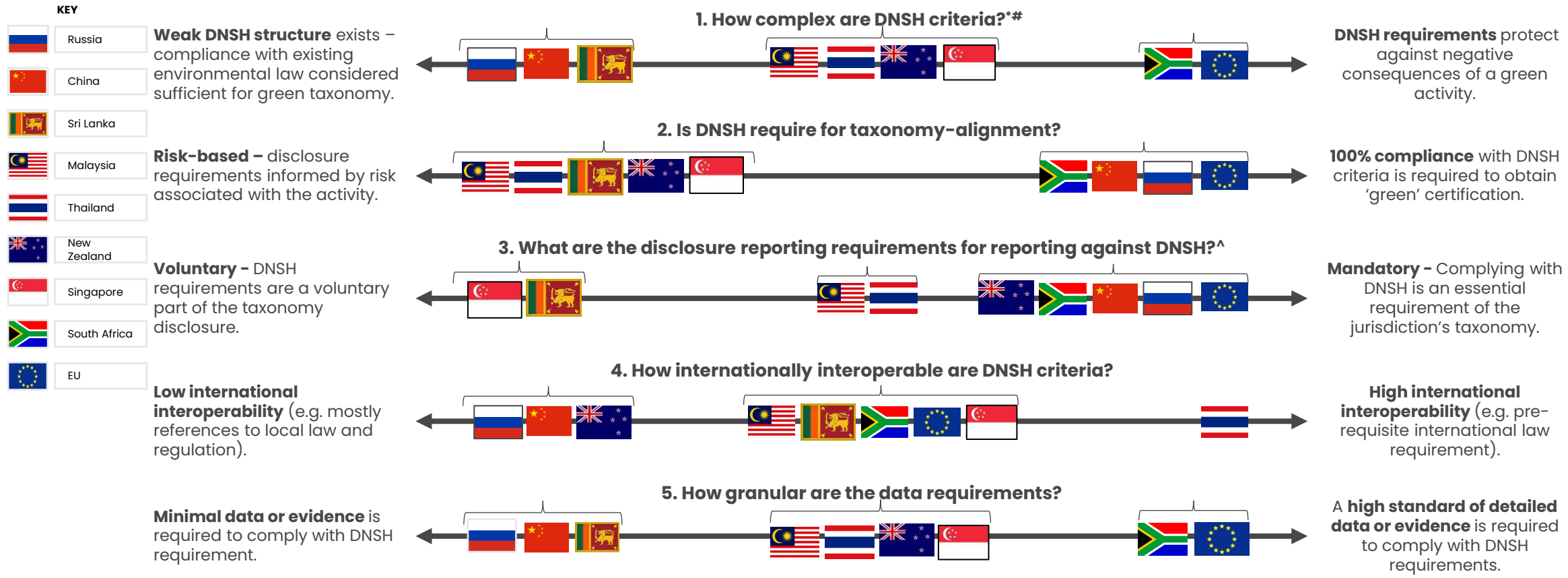
Advocate for new approach internationally

Note: *DNSH in this report are split into two types: **Principles-based and Thresholds-based**. The former is a high-level and descriptive type of criteria which highlights approaches and ways of thinking with regards to harm done to environmental objectives. The latter is more driven by quantitative limits and process-based indicators that are based on scientific data and other national/international laws.



High-level comparative analysis of international approaches to DNSH

Taxonomies around the world have attempted to design DNSH in different ways – for example, the EU has chosen a compliance approach, whereas Malaysia has taken a risk-based approach, using transparency to drive outcomes. Below we have conducted a **relative assessment for different applications of DNSH** from a range of taxonomies against the bookends of variability of the factors affecting their design (**see Appendix A for more detail**).



Note: *Russia is a unique consideration in this case study as it does not contain any DNSH criteria. There are several ways of interpreting its interoperability and we have chosen to view it as an all-or-nothing approach. This is subject to differences in interpretation – the content above is simply indicative.
 #The bracket symbols used above are indicative of jurisdictions that are represent the same level on the spectrum and are placed together for ease in representation.
 ^The jurisdictions in the middle of the spectrum are those where taxonomy reporting is voluntary but the use of DNSH criteria within the alignment process is integrated as necessary for identifying position on a RAG scale.

Four jurisdictions have been selected for deep-dive analysis, each highlighting a distinct element of interest

The below taxonomies have been selected for deep dives as they present a diverse set of DNSH criteria or principles use-cases which are structured, implemented, and used differently*. In particular, the [5 components of DNSH criteria](#) are used to benchmark and measure performance of DNSH criteria against each other. The selected taxonomies are also deemed to be relevant to the UK's DNSH criteria as they show how the rigour and complexity of DNSH criteria match environmental objectives and priorities. All of these taxonomies have already been published as a public draft.



Thailand

Thailand's Taxonomy draws extensively on international standards and incorporates DNSH as a guiding principle. Its risk-based approach includes a requirement to assess/disclose assess against DNSH criteria, but compliance is not required at time of reporting – as long as plans are in place to correct the deficiencies.

Rationale for inclusion: Example of a highly internationally interoperable approach



Malaysia

Malaysia's taxonomy has been developed in accordance with the General Principles that includes no significant harm to the environment as a pillar. The expectation of any green activity is to comply with this principle using a climate risk approach based on data availability and sector guidance. Non-compliant activities can receive amber and red grades as well.

Rationale for inclusion: Example of a risk-based approach to DNSH



South Africa

South Africa's Green Taxonomy, and its DNSH criteria, are modelled on the EU. South Africa has simplified the drafting of DNSH requirements, but use of country-specific metrics may hinder international operability. A key difference from the EU approach is that SA has not mandated DNSH disclosure requirements, other than for climate resilience.

Rationale for inclusion: Example of simplified EU Taxonomy DNSH requirements



Russia

Russia's Green Taxonomy requires compliance with the DNSH principle, though this is classified as meeting Russian Environmental Protection Laws. Technically, any taxonomy-aligned activity is deemed to be de facto DNSH-aligned as well. This streamlines DNSH requirements of the activity completely to a single action point.

Rationale for inclusion: Example of outcomes if DNSH were interpreted solely as compliance with existing environmental law



Note: * Each of the jurisdictions' areas of interests are not exclusive to the jurisdiction itself. For example, Malaysia and Thailand both use risk-based approaches in their taxonomy disclosures but Malaysia is chosen instead because its risk-based approach was deemed to have more detail. Additionally, these areas of interest are not limited to the jurisdictions above; other taxonomies may contain similar insights.



Thailand- Deep Dive



The Thai taxonomy contains generic DNSH principles for each of the six environmental objectives, matching those from the EU. These are expressed as short paragraphs in a single table within the taxonomy document. Thailand’s DNSH principles incorporate international standards and adopt a RAG scale for risk-based evaluation of activity.

	How complex are DNSH? ← Low High →	How are DNSH disclosed? ← Risk-based All-or-nothing →	What is the DNSH mandate? ← Voluntary Mandatory →	How interoperable are DNSH? ← Low High →	How much data is required? ← Low High →
Description	DNSH principles contain descriptive phrases which detail high-level requirements for activities that do not do significant harm and minimise risks to each of the EU environmental objectives.	Taxonomy disclosure adopts a RAG scale , whereby end users that meet DNSH principles can report ‘green’ alignment, and others that do not fully align with DNSH but articulate future plans to correct the deficiencies can report amber.	Reporting requires DNSH criteria alignment or remedial plans within a separate section of a taxonomy-alignment report where all 6 environmental objectives are considered.	DNSH principles require alignment with Thai law and three international conventions as a pre-requisite* before any DNSH can be considered. This is through firm-level claims in annual reports. The descriptive nature of DNSH also support international capital.	The taxonomy shows some data use-cases but do not specify requirements for alignment . This is discussed for the taxonomy as a whole rather than at a DNSH level. This leaves DNSH data considerations to user-level interpretation.
References	“Assessments of impact must take into account state-of-the-art science for vulnerability and risk analysis” (DNSH criteria, Adaptation)	The taxonomy document details an alignment assessment scheme which shows examples of how to align against a RAG scale using data (Appendix 2 of Taxonomy)	“Additional reporting on compliance with the DNSH and MSS must be done and attached to the main report ” (Appendix 2 Taxonomy)	“Activity owners must comply with the following international norms...regulations and requirements established by the law of Thailand ” (DNSH requirements)	“The bond is eligible under Article 4.2.5 criteria if the DNSH criteria and MSS are observed ” (Appendix 3: Green Infrastructure case study)

Strengths and weaknesses		Considerations for the UK
<ul style="list-style-type: none"> ✓ Use of International standards within DNSH ✓ Principle-based thresholds provide guidance for evaluators on level of compliance ✓ DNSH principles are generic enough for foreign investments 	<ul style="list-style-type: none"> ✗ DNSH do not have thresholds for activities ✗ Non-DNSH compliant activities (which still contribute to an environmental objective) can still be considered ‘Green’ ✗ DNSH are ‘open to’ different interpretations 	<ul style="list-style-type: none"> • Using generic DNSH principles allows for flexibility: This provides a sufficient framework for genuine environmental progress but with less restrictions at a user-level • Using international standards as the basis of DNSH principles: This provides a minimum requirement for best practices before DNSH principles are even considered. • Using Internationally accredited databases: This provides reliable data sources within DNSH principles for a common baseline for accessing and using data.

Sources*: Basel convention on the Control of Transboundary Movements of Hazardous Waste and their disposal, Convention on International Trade in Endangered Species of Wild Fauna and Flora, Convention on Biological Diversity; Thailand’s Green taxonomy: [Thailand Taxonomy phase 1.pdf \(bot.or.th\)](#); Thailand Green Infrastructure report: [Green Infrastructure Investment Opportunities: Thailand 2021 Report \(think-asia.org\)](#)



Malaysia- Deep Dive



The Malaysian taxonomy contains ‘significant harm to environment principles’* for three environmental objectives that match those of the EU*. These are a non-exhaustive description of DNSH considerations to be taken into account for each objective.

	How complex are the DNSH?	How are DNSH disclosed?	What is the DNSH mandate?	How interoperable are DNSH?	How much data is required?
Description	<p>DNSH principles are a list of non-exhaustive types of assessments and descriptions of actions rather than thresholds. These provide a set of minimum requirements and/or appropriate measures that should be taken by firms in order to be DNSH compliant.</p>	<p>Taxonomy disclosures adopt a RAG scale, whereby end users that meet DNSH principles can report ‘green’ alignment, and those that are transitioning or enabling other activities can report in two-tiers of amber. These activities can support their claims with remedial plans for managing DNSH risks.</p>	<p>Green taxonomy alignment requires mandatory and full compliance with DNSH principles; while Amber alignment requires the provision of remedial plans for where DNSH principles have not been fully satisfied. This must be supported by external assurance.</p>	<p>While DNSH principles do not specifically reference international standards, a list of internationally recognised standards is included to support whole-of-taxonomy compliance– driving international interoperability.</p>	<p>No specific thresholds are required DNSH compliance – users are encouraged to leverage existing activity-level information and/or proxies such as ESG-ratings and sustainability benchmarks for purposes of DNSH reporting.</p>
References	<p><i>“Ensure water/energy/natural resources...fulfil...national legislation requirements”</i> (Energy, Water, and Resources DNSH)</p>	<p>Taxonomy’s General principle 4- remedial measures to transition or enabling activities with classification of economic activities (GP4 and Part D)</p>	<p>The taxonomy contains a table that provides sector-specific guidance for disclosing and/or verifying claims made. (Appendix 5)</p>	<p>Case studies show how best-practices are integrated into DNSH principles with considerations such as “No deforestation” and “Periodic soil testing” (Part E).</p>	<p>Leveraging on “external ESG data and analytics platforms...free of controversies, penalties, and fines” (Part E)</p>

Strengths and weaknesses		Considerations for the UK
<ul style="list-style-type: none"> ✓ Potential Green activities given room for improvement on DNSH ✓ Taxonomy identifies priority decarbonisation sectors ✓ DNSH principles link directly with international standards 	<ul style="list-style-type: none"> • Risk-based approaches to disclosure and compliance: Splitting assets by level of DNSH compliance provides clear information to investors • Using assurance as a mandatory procedure with DNSH principles: This drives asset owners to conduct more in-depth analyses and have more substantive claims. 	
<ul style="list-style-type: none"> × Lack of direct activity thresholds within DNSH × Assurance is dependent on third party assessments using industry standards but without guidance on required achievement level 		

Sources: Malaysia’s Climate change principles taxonomy: [Climate+Change+and+Principle-based+Taxonomy.pdf \(bnm.gov.my\)](#) ; ASIFMA response to Malaysian taxonomy: [Microsoft Word - ASIFMA Response to BNM Climate Change Taxonomy DP - v20200331 FINAL DRAFT \(clean\).docx](#); BIS insights piece on Malaysian taxonomy: [Fraziali Ismail: Climate action in the Malaysian financial sector \(bis.org\)](#); BNM annual report: [BNM Annual Report 2021](#) **Note:** *: Malaysian Taxonomy’s Guiding Principle 3: No significant harm to the Environment uses a DNSH-like principle but without any specific criteria. This pertains to pollution, biodiversity, and natural resources.



South Africa- Deep Dive



The South African taxonomy contains specific DNSH criteria for each of the six environmental objectives matching those of the EU. These are detailed, referencing to international and/or local law, and contain thresholds for activity. South Africa's DNSH criteria closely mirror the EU but are generally shorter as they have sought to streamline for the Mitigation and Adaptation objectives. They are tailored to local South African law where relevant with selective references to international standards.

	How complex are the DNSH?	How are DNSH disclosed?	What is the DNSH mandate?	How interoperable are DNSH?	How much data is required?
	← Low ————— High →	← Risk-based ————— All-or-nothing →	← Voluntary ————— Mandatory →	← Low ————— High →	← Low ————— High →
Description	The DNSH criteria are designed similarly to those of the EU. They contain DNSH criteria for activities by the six EU Environmental objectives. The DNSH criteria are less complex than the EU because of shortened length and grouping of economic activities.	Like the EU, South Africa adopts an 'all-or-nothing' approach to disclosure whereby failing to demonstrate compliance with one DNSH means a firm is unable to report alignment for that criteria.	Meeting all DNSH requirements is mandatory for claiming compliance. While assurance is currently not a requirement, the taxonomy document strongly recommends external verification.	While individual DNSH criteria only reference local law, a high-level list of international standards is also set out to support more sophisticated reporting. Given the simplification of DNSH through reduction in length, interoperability is improved.	There are very specific data requirements included in the DNSH criteria which are referenced to one of 1) local/EU law, 2) directly as a quantitative threshold or 3) as a qualitative process description.
References	64% of DNSH are very similar to EU DNSH. For example: "sewage collection", "inorganic chemicals", and "Electricity of wind power" have the same requirements for compliance. (Appendix A)	The taxonomy document adds information on references to EU Climate delegated acts such as the "Supplement to Article 8" which provides methods for reporting taxonomy financial metrics. (Marine DNSH)	Users need to assess performance against DNSH objective... to be taxonomy aligned (Section 2.7)	"Fulfil requirements of National Water act...Water services act...Mountain Catchment Areas act... for compliance" (Hydropower DNSH for marine and water resources)	"Direct GHG emissions are calculated using ISO14067...activity emissions are lower than 270gCO2e/KWh " (Hydropower DNSH for adaptation)
Strengths and weaknesses			Considerations for the UK		
	<ul style="list-style-type: none"> ✓ Broadly consistent approach to EU supports interoperability ✓ DNSH criteria are simpler and fewer in number than that of the EU ✓ DNSH criteria provide exact references and minimise divergence in interpretation 		<ul style="list-style-type: none"> • Using specific, activity thresholds in DNSH criteria: This provides a robust standard for alignment and minimises greenwashing risks due to divergent interpretations. • Using international standards with local laws: This ensures sufficient coverage of DNSH criteria when standards (either local or international) are sometimes not available. • Using the same outline as the EU: This provides a reliable framework that can be elevated with UK-specific law or international standards. 		
	<ul style="list-style-type: none"> × DNSH criteria are not specified per each activity (unlike the EU). This can create confusion on criteria to include in DNSH assessment × Generally less ambitious thresholds could reduce positive outcomes 				

Sources: South Africa's Green taxonomy: [SA Green Finance Taxonomy - 1st Edition.pdf \(treasury.gov.za\)](#); South Africa vs EU taxonomy & DNSH overview paper: [202211101 Report_A Comparison Between the EU Green Taxonomy and South Africa's Green Taxonomy.pdf \(treasury.gov.za\)](#); South Africa taxonomy briefing paper: [Briefing Paper - South Africa's ambitious Green Finance Taxonomy \(sustainablefinanceinitiative.org.za\)](#)

Comparing simplicity of DNSH structure between EU and South Africa

The UK can look to other jurisdictions to make DNSH clear and simple to help avoid issues faced in interpretation of EU DNSH criteria. South Africa has effectively simplified its DNSH by using shorter text length and consolidating economic activities while still referencing similar international standards and equivalent local laws. Detailed below are two examples of DNSH criteria which South Africa simplified successfully.

- Rec #1**
 Confirm the purpose of, approach to and definition of DNSH
- Rec #2**
 Improve transparency of extent to which DNSH criteria are met
- Rec #3**
 Establish functional design parameters for drafting DNSH TSC
- Rec #4**
 Streamline EU DNSH TSC to improve usability
- Rec #5**
 Guidance to complement DNSH reporting
- Rec #6**
 Advocate for new approach internationally

Example 1: Pollution Prevention DNSH; Activity: Low Carbon Transport Infrastructure

EU 5 activities Longer Text Same Scope	Measures are taken to reduce noise, dust and pollutant emissions during construction or maintenance works. Where appropriate, given the sensitivity of the area affected, in particular in terms of the size of population affected, noise and vibrations from use of infrastructure are mitigated by introducing open trenches, wall barriers, or other measures and comply with Directive 2002/49/EC of the European Parliament and of the Council. Measures are taken to reduce noise, dust and pollutant emissions during construction or maintenance works. Where relevant, noise and vibrations from use of infrastructure are mitigated by introducing open trenches, wall barriers or other measures and comply with Directive 2002/49/EC. Measures are taken to reduce noise, dust and pollutant emissions during construction or maintenance works. Measures are taken to reduce noise, vibration, dust and pollutant emissions during construction maintenance works.		South Africa 1 activity Shorter Text Same Scope	For mitigation and adaptation projects • Minimise noise and vibrations thresholds in line with the Environmental Conservation Act (Act 73 of 1989) and the Occupational Health and Safety Act (Act 85 of 1993). • Minimise noise, dust, emissions pollution during construction / maintenance works.	<p>Key Difference: Shorter text, same rigour</p> <p>The South African DNSH uses 76% fewer words than equivalent EU DNSH while referring to very similar local regulations in respective jurisdictions. This is driven by removal of descriptive text that explains the regulations and simply stating the laws themselves with a brief explanation on purpose and usage.</p>
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Example 2: Climate Mitigation DNSH; Activity: Manufacture of Hydrogen

EU 1 activity Same thresholds Same standards	The activity complies with the life cycle GHG emissions savings requirement of 70 % relative to a fossil fuel comparator of 94g CO2e/MJ as set out in Article 25(2) of Directive (EU) 2018/2001 of the European Parliament and of the Council and Annex V to that Directive. Life cycle GHG emissions savings are calculated using the methodology referred to in Article 28(5) of Directive (EU) 2018/2001 or, alternatively, using ISO 14067:2018 or ISO 14064-1:2018. Quantified life-cycle GHG emission savings are verified in line with Article 30 of Directive (EU) 2018/2001 where applicable, or by an independent third party.		South Africa 1 activity Same thresholds Same standards	The activity complies with the life cycle GHG emissions savings requirement of 70 % relative to a fossil fuel comparator of 94g CO2e/MJ Life cycle GHG emissions savings are calculated using the methodology referred to in ISO 14067:2018 or ISO 14064-1:2018. Quantified life-cycle GHG emission savings are verified by an independent third party.	<p>Key Difference: Same standards, more interoperable</p> <p>The South African DNSH has the same scope and quantitative thresholds used as the EU equivalent, however, only refers to international standard without local regulations. This fosters interoperability of DNSH through the same rigour of standards and thresholds without limiting to any local regulations.</p>
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Source: South Africa–[SA Green Finance Taxonomy - 1st Edition.pdf \(treasury.gov.za\)](#); EU–[Platform on Sustainable Finance’s recommendations on data and usability of the EU taxonomy \(europa.eu\)](#)



Russia- Deep Dive



Russia’s Green Taxonomy views satisfaction of the DNSH principle as compliance with Russian laws. The taxonomy specifies thresholds for different projects which are assumed to comply with a DNSH principle. The DNSH principle is only mentioned once in the Russian taxonomy document and is described as compliance with local Environmental Law but without specifying which laws.

	How complex are the DNSH?	How are DNSH disclosed?	What is the DNSH mandate?	How interoperable are DNSH?	How much data is required?
	← High Low →	Risk-based ← All-or-nothing →	← Voluntary → Mandatory	← Low → High	Low High
Description	Since there are no DNSH criteria, the DNSH principle is most closely determined though Russian environmental law. Compliance against Russian law is de facto compliance against the DNSH principle.	Compliance with DNSH (i.e. local law) is required for any project seeking alignment with the Russian taxonomy. While the threshold for DNSH is comparatively low, disclosure still adopts an ‘all-or-nothing approach’.	DNSH alignment is mandatory by default given the requirement is to only align with local law. Notably, the Russian Taxonomy suggests optional additional disclosures for adverse impacts - a concept similar to DNSH.	The taxonomy states an objective to be focused on best international practices – however none of these relate specifically to DNSH. Given the highly domestic nature of DNSH in Russia – interpretability is low.	The taxonomy does not reference the use of data, standards, or proxies generally or within the context of DNSH.
References	The taxonomy document does not directly specify which Russian environmental laws need to be considered or provide a catalogue of laws that can be viewed.	“Projects in Russia shall be deemed as compliant with Do No Significant Harm principle if they meet the Russian Federation environmental law” (P. 2)	“The initiator may opt for additional disclosures...absence of adverse environmental impact...” (P. 2)	“Projects focused on achieving...Paris agreement...and following UN SDGs” (P. 1)	Not Applicable

Strengths and weaknesses		Considerations for the UK
<ul style="list-style-type: none"> ✓ DNSH requirements are fully streamlined into the overall activity eligibility criteria ✓ Very low data requirements, resulting in minimal effort for reporting entities 	<ul style="list-style-type: none"> ✗ Not clear that DNSH principle provides any/adequate protection against negative externalities ✗ Principles or assessment methodologies for harm contributed are unavailable 	<ul style="list-style-type: none"> • Using a broad DNSH principle that directly ties to environmental laws: Can be efficient but still requires more in-depth references. This can be considered as a remedial means for satisfying DNSH requirements in some cases. • Using voluntary verification to back DNSH compliance: This provides users with sufficient room for flexibility and innovation on taxonomy aligned assets while also suggesting optional verification against Russian law.

Sources: Russia’s Green taxonomy: <https://b36.pb/files/?file=1ede59eb104185e24280ee57cf3156c6.pdf&xn--90ab5f.xn--plai>; Russia’s climate policy tracker: [Policies & action | Climate Action Tracker](https://climateactiontracker.org/countries/russian-federation/); Climate Action Tracker – Russia <https://climateactiontracker.org/countries/russian-federation/>. **Note:** *A scale is not used because data considerations are not discussed in the Russian Taxonomy for any kind of disclosure.

Insights from comparable jurisdictions with developing taxonomies

Countries from other jurisdictions that are still in development stages are also developing DNSH criteria in different capacities. These countries are likely to observe developments in the UK as indicators for their own taxonomy structures.



Canada

DNSH considered; Transition related

Focus: The Canadian Standards Association (CSA) is developing a “transition” taxonomy which provides a methodology for assessing transition paths taken by heavy emitting sectors.

DNSH criteria: The CSA has identified the 6 EU environmental objectives for DNSH criteria using a principles approach. Details of impact assessment methodologies to incorporate sectoral variance in applicability have been discussed broadly.



Australia

Interest in DNSH; Design unclear

Focus: The Australian Sustainable Finance Institute (ASFI) is developing a principles-based interoperable taxonomy that allows for green and “transitional” activities as well as social considerations.

DNSH criteria: ASFI has discussed and surveyed the requirement for DNSH criteria, however, has not detailed any specific structure. 80% of respondents are in support of DNSH criteria being included.



New Zealand*

Some DNSH design; Timeline unclear

Focus: The Sustainable Agriculture Finance Initiative (SAFI) launched a principles-based document for identifying green activities in New Zealand’s agricultural sector.

DNSH criteria: SAFI provides a descriptive guidance on DNSH through principles for the EU’s 6 environmental objectives. These are high-level and very specific to management of livestock, farms, and water resources.

Opportunity to align UK taxonomy and DNSH criteria to meet their expectations and priorities, to facilitate international interoperability

Canada’s DNSH criteria are fundamentally driven by a requirement to integrate assets from the oil and gas sector in combination with carbon capture. The UK can consider the differences between these two economies and how this drives the perception of DNSH criteria more widely. Ultimately, this can be considered from the lens of environmental ambition as well.

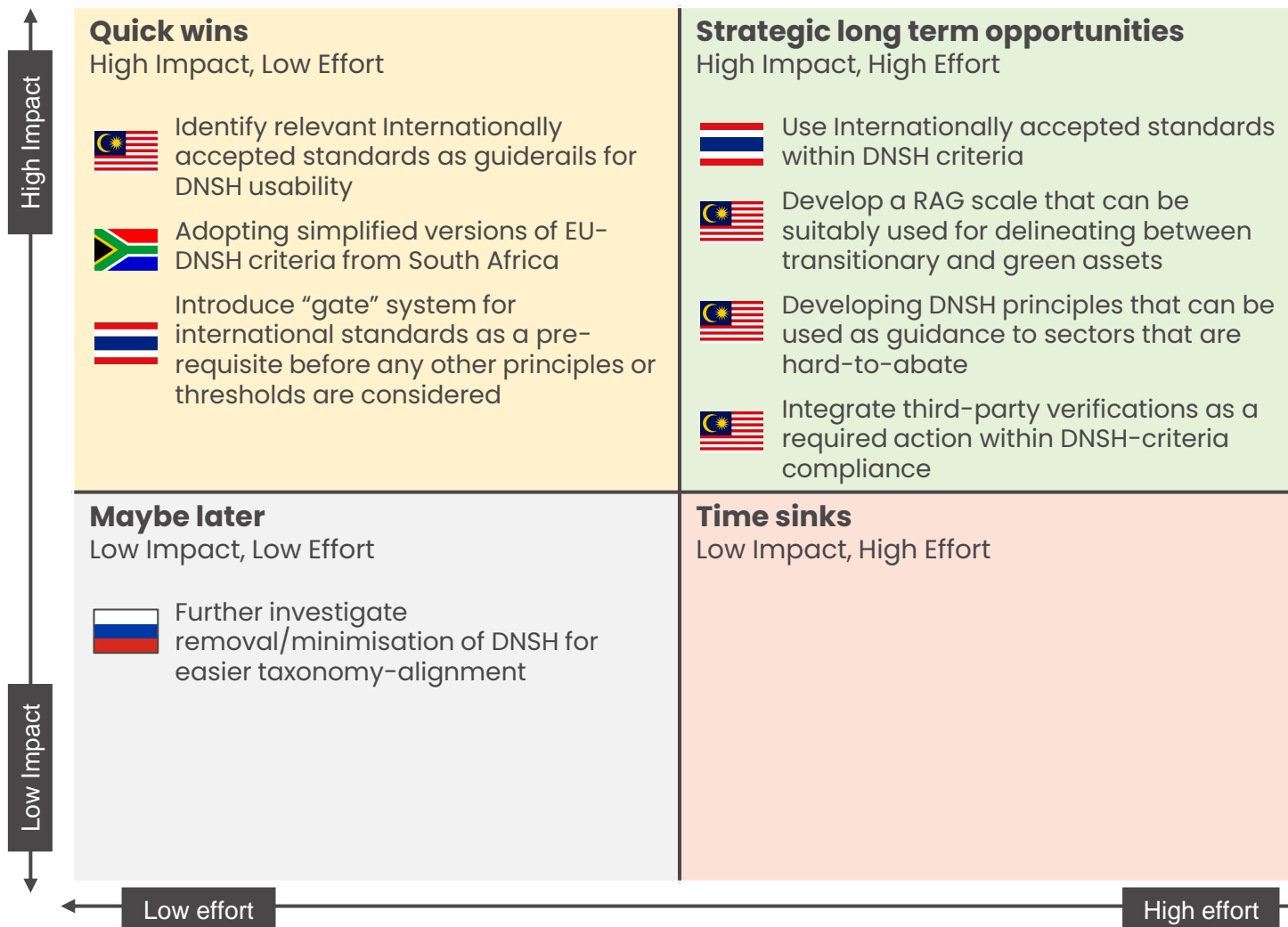
Australia’s green-light to DNSH criteria comes with the key ambition of matching international interoperability as a priority to ensure sufficient foreign direct investments. The UK can consider how interoperability matches their priority and how big a variable it should be in discussions around the design of the DNSH criteria.

New Zealand has taken an interesting approach by developing a sector-specific DNSH first. The UK can consider how this approach aligns with its overarching environmental objectives; specifically whether it facilitates interoperability and provides sufficient references to local laws and international standards.

Sources: Canada’s Green taxonomy Roadmap report: [Taxonomy Roadmap Report: Advice and Recommendations \(canada.ca\)](#); Australia’s Sustainable taxonomy framing paper: [Framing+Paper+Update+March-compressed.pdf \(squarespace.com\)](#); New Zealand’s taxonomy report: [Microsoft Word - Taxonomy_Feb22_v3 - fomatted.docx \(squarespace.com\)](#); New Zealand’s taxonomy briefing report: [Dr-Ivan-Diaz-Rainey-ClimateTAPS-Scoping-Paper-August-2021.pdf \(environment.govt.nz\)](#)
*SAFI’s guidance documents currently only cover livestock and crops, however, for the purposes of this work, we are referring to the guidance as a taxonomy, as SAFI have stated that the guidance “takes note of international frameworks as a starting point, including the EU Taxonomy”.

Key opportunities to integrate DNSH designs from other international taxonomies into the UK taxonomy

The opportunities on this page were considered when preparing recommendations. Not all opportunities were incorporated into the recommendations, but could be considered in the future.

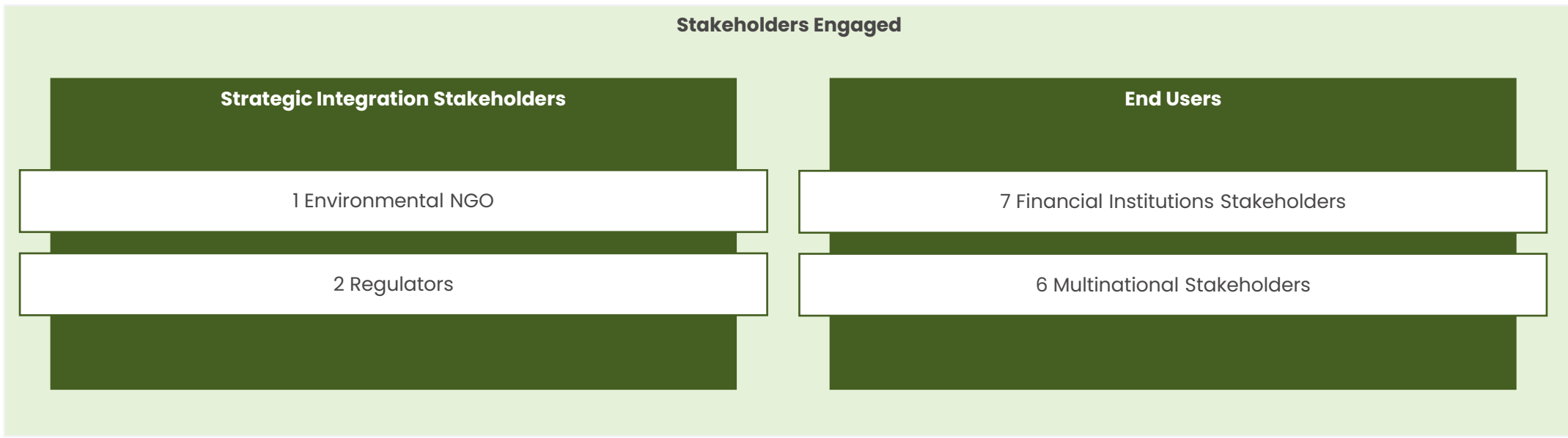


Note *This refers to the 78% of EU DNSH criteria that were simplified in the South African taxonomy. Hence, the 22% of DNSH are those that South Africa excluded for simplification.

Appendix E: Market testing insights

Who we spoke with

Consultations were undertaken with a variety of end user and strategic integration stakeholders. In total 16 consultations were undertaken with 35 personnel. The illustration below provides a high-level overview of the market testing stakeholders.



Summary of Key Findings from Market Testing Consultations

01

Most firms don't use the taxonomy for decision-making due to DNSH usability issues.

Entities reported multiple use-cases for the taxonomy. However, due to usability issues relating to DNSH, most stakeholders reported not using the taxonomy in determining how to direct capital more sustainably.

02

Most firms struggle with disclosure against DNSH due to data availability.

Many end users didn't have access to the data required to meet DNSH criteria due to their granularity and lack of alignment with existing frameworks and their data requirements. This results not only in lack of data, but lower quality of and confidence in data as well.

03

The binary all-or-nothing approach to disclosure against DNSH criteria is driving low taxonomy alignment.

Many end users reported low alignment with the taxonomy due to the DNSH approach and would benefit from a risk-based comply and explain approach.

04

Stakeholders have divergent views on what constitutes 'significant harm'.

Many stakeholders felt that some DNSH requirements may not be significant enough to prevent an activity from being considered green. An approach incorporating the materiality of risks would be preferred.

05

Stakeholders are split on whether DNSH should be activity-based or principles-based.

Activity-based DNSH, following the EU's approach are more stringent. A principles-based approach will allow for increased compliance for end users, however runs a risk relating to greenwashing, hence the market was split on this point.

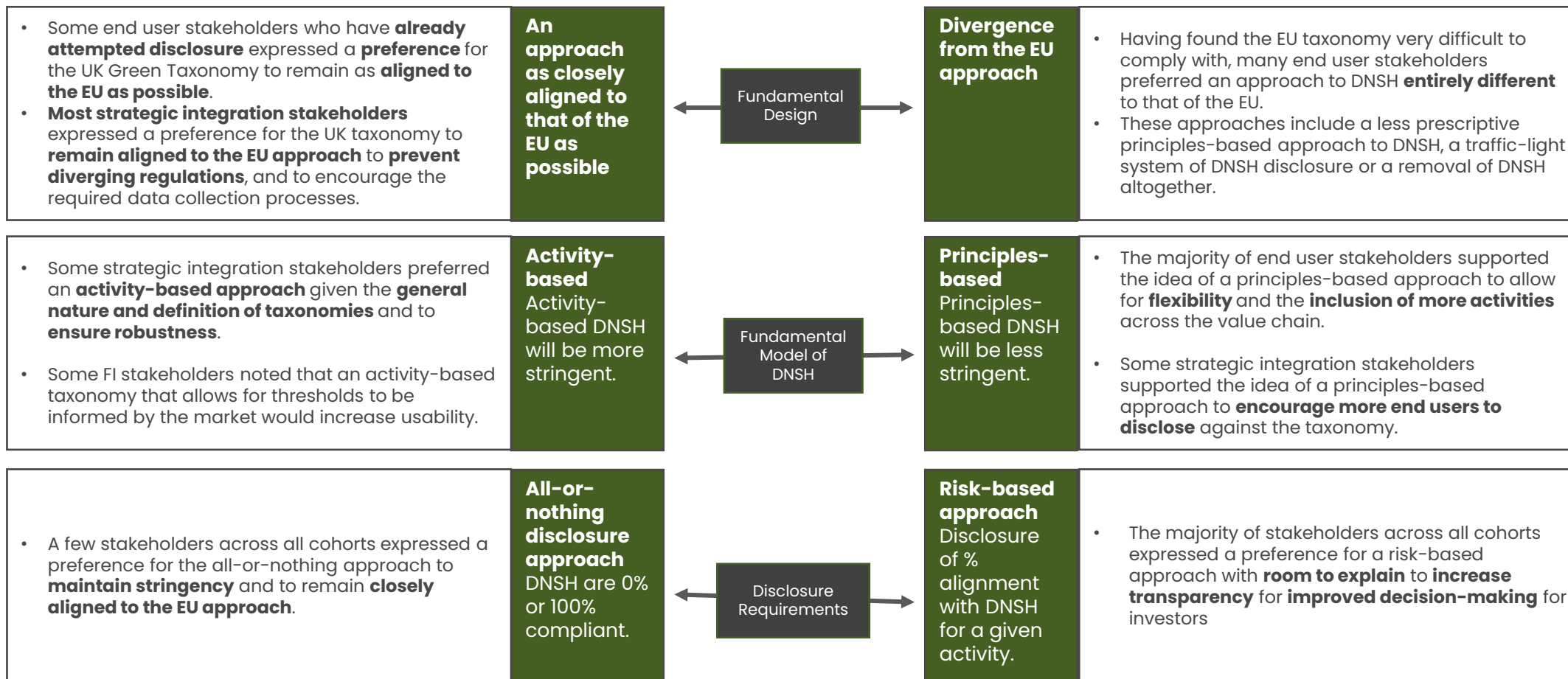
Priorities across stakeholder cohorts

Stakeholder consults displayed varying priorities across end user and strategic partner cohorts.

	BANKS	OTHER FIs	MULTINATIONALS	REGULATORS	ENVIRONMENTAL NGOs
	<p>Priorities across stakeholders vary considering their individual use-cases, and whether they are an end user or a strategic partner</p>				
BROADER DESIGN	<ul style="list-style-type: none"> DNSH that allow for activities not yet at the green status to be classified as 'in transition' (e.g. amber on a traffic light system). 	<ul style="list-style-type: none"> Increased transparency of DNSH disclosure for improved decision-making A taxonomy including both sustainable activities across the value chain; and emerging technologies. 	<ul style="list-style-type: none"> Comparability of DNSH and taxonomy disclosures across reporting entities Underlying governance processes for taxonomy 	<ul style="list-style-type: none"> Interactions of the DNSH with other regulations and the broader regulatory environment 	<ul style="list-style-type: none"> Ensuring robustness and preventing potential greenwashing risks
USABILITY	<ul style="list-style-type: none"> Alignment with other international frameworks already being adhered to. Confidence in data from data providers considering a vast number of investments including SMEs to be accounted for. 	<ul style="list-style-type: none"> Consistency of reporting, particularly in regard to qualitative criteria 	<ul style="list-style-type: none"> International interoperability of DNSH criteria, given many multi-jurisdictional assets Alignment with existing ESG frameworks to reduce data collection burden 	<ul style="list-style-type: none"> Ensuring high data availability and confidence for end users across various cohorts to improve usability Consistency of reporting, particularly in regard to qualitative criteria 	<ul style="list-style-type: none"> Maintain international interoperability with the EU by building on EU approach already developed

Bookend views from the market on fundamental DNSH elements

Due to varying priorities across stakeholder cohorts, across key elements of DNSH varying opinions were identified.



Evidence for each key finding

The below points represent anecdotal evidence from case study discussions with stakeholders.

01

Taxonomy Use-Cases due to DNSH

The three main use cases for the taxonomy identified are as follows:

- **Mandatory Reporting**

Many entities use the EU taxonomy solely when it is mandatory for them as opposed to as a tool for investor-decision making.

- **Voluntary Reporting**

Fewer entities report voluntarily. In these cases, reported alignment is often very low. Entities will also often choose to adapt certain aspects to their specific usability needs.

- **Bespoke Internal Taxonomies**

Some entities use the EU taxonomy as a baseline and have produced their own taxonomy for internal use, tailored to their own needs.

02

Data Availability to meet DNSH criteria

Context: A multinational defence company considering future reporting requirements

Situation: The company reported 'consistency with existing reporting to be the most useful aspect to consider'. While they reported concerns in relation to the complexity of the requirements; they reported alignment with other frameworks as the most important consideration.

Impact: The company explained that 'different ways of measuring and reporting will make compliance very difficult' and 'duplication takes time and effort'.

03

All Or Nothing Approach to DNSH

Context: Portfolio manager within a global investment company

Situation: The portfolio comprises of predominantly Article 8 and 9 funds, reported an estimated 80% alignment with the taxonomy based on substantial contribution criteria. However, due to the complexity of the DNSH criteria and the requirement to meet every one, this alignment was reduced to 0%.

Impact: While their investors are aware of the funds and where they stand from a sustainability perspective, taxonomy-related disclosure is not helpful.

04

Defining what constitutes 'Significant Harm'

Context: An asset manager reporting taxonomy alignment.

Situation: To align with the DNSH criteria for one of its funds, the investor would need to prove one of their investment activities doesn't exceed a certain decibel level in relation to passing trains.

Impact: The stakeholder's main thought in relation to this is that every company causes a certain level of harm in some aspect, at what point is the line of 'significance' drawn, and at what point is a data point too granular?

05

Principles-Based vs Activity-Based DNSH

'We don't want effort to go into things that are marginal, as a principle - it should be considered near enough or close enough if it supports the overall policy objective.'

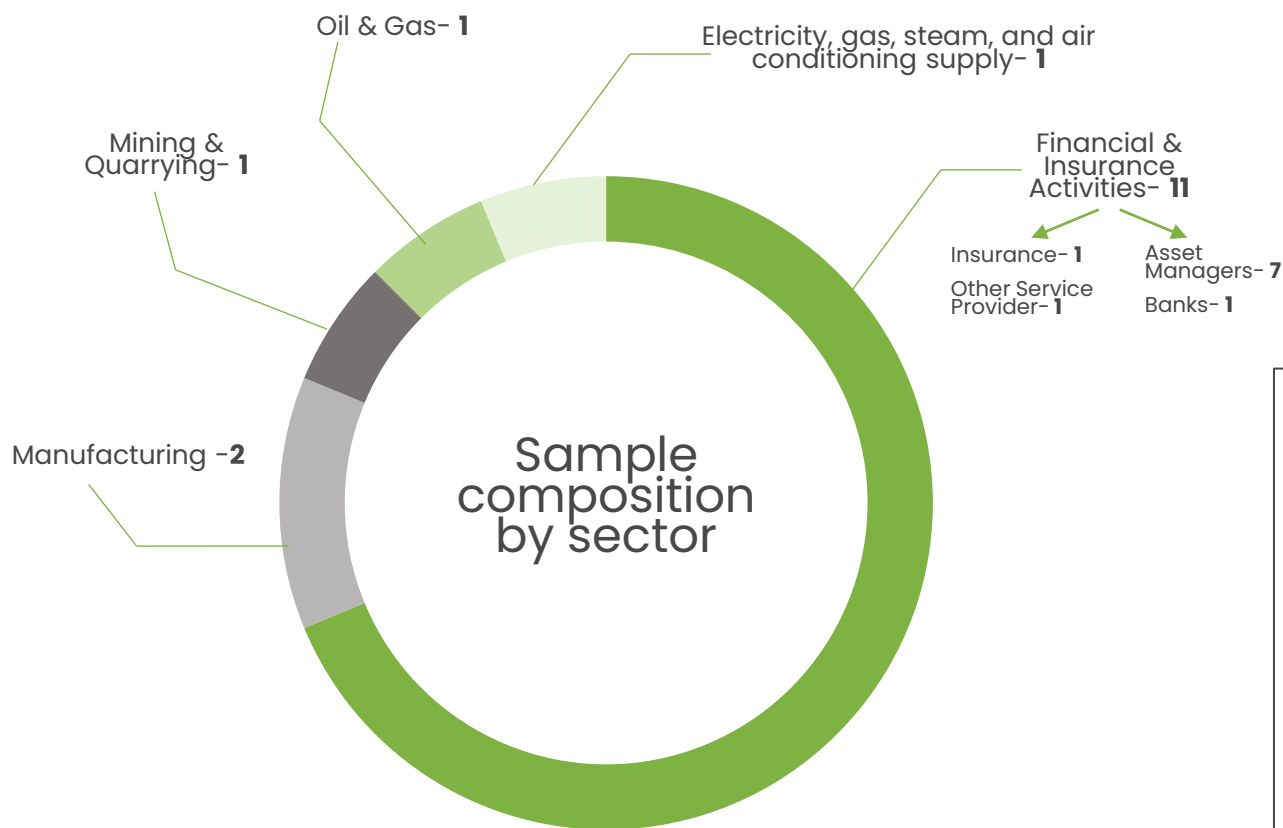
- *Environmental Regulator*

'Having guidance and a principle-based approach would be so helpful.'

- *Asset Manager*

An overview of short survey responder statistics

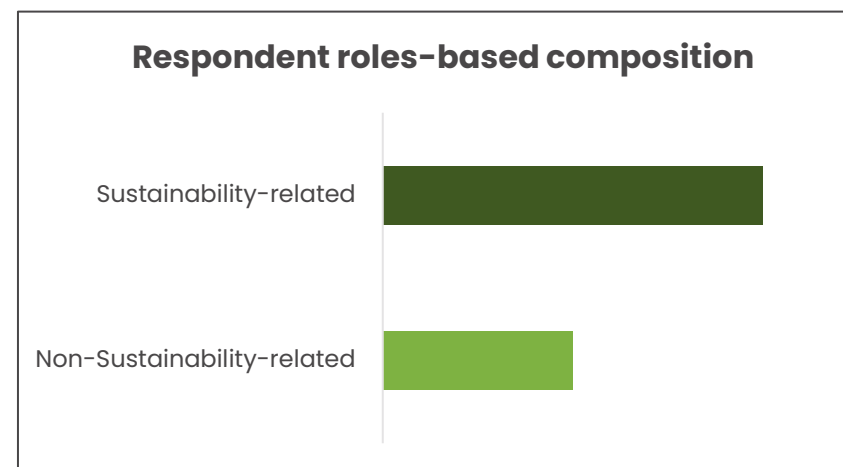
The short survey aimed to understand the experience of end users navigating the EU taxonomy, challenges posed by DNSH, and priorities for the UK taxonomy. Below is an overview on the parties that responded:



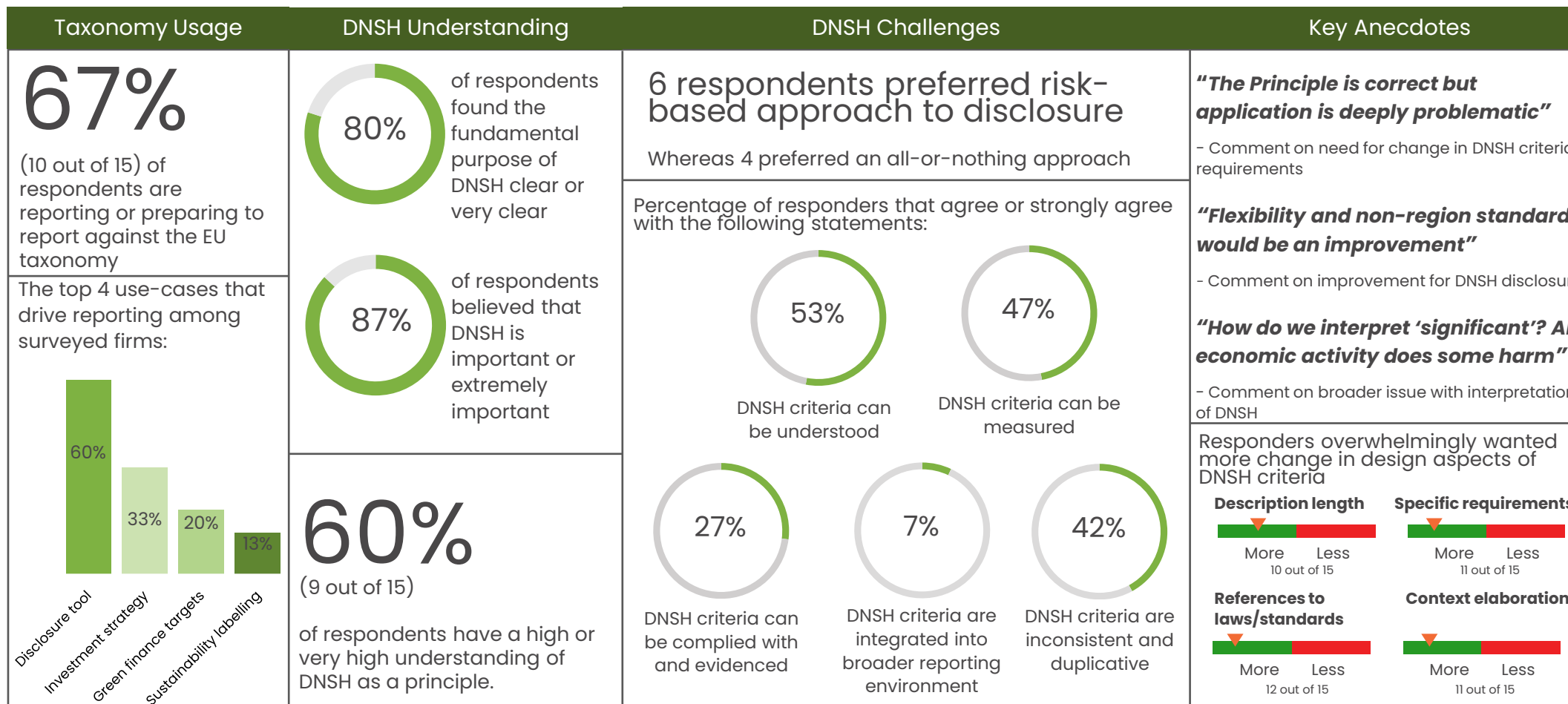
Survey Responder Overview

There were 15 responses to the survey ranging across 5 different sectors of which 73% identified as Finance and Insurance Activities.

Of the 15 responders, 67% listed their title of work as a sustainability-related position with the non-sustainability positions titled around governance and investment.



Quantitative insights from short survey



DNSH end user challenges

The following quotes relating to end user challenges have been drawn from the market testing phase of the engagement.

'We don't want effort to go into things that are marginal, as a principle - it should be considered near enough or close enough if it supports the overall policy objective.'

- Environmental Regulator

'This super fundamental - the sheer volume of requirements is a concern.'

- Environmental Regulator

"We do it all internally with no data providers - what we've found when we've researched data providers is that there's a huge difference in the results we get."

- Asset Manager

"It is not automatic or easy to translate (EU regulations and directives) at corporate level - there's a clear gap there... This is really worth doing, but is a lot of work."

- Environmental NGO

It all comes back to the question of how you define significant harm - this is probably the issue.'

- Mining Multinational

"(DNSH) criteria are very complex and not always easy to apply in a specific asset context."

"Complexity is the enemy of good reporting due to all kinds of differences and all kinds of interpretation."

- Oil & Gas Major



"To put out disclosures, you have pressure for data, high quality data - it becomes a very high complexity requirement."

- Banking

DNSH end user opportunities

These quotes relate to opportunities to increase the usability of DNSH from an end user perspective.

“Our overarching comment is simplification and standardisation would be much more helpful across it all to explain what we’re doing and the activities we’re trying to take.”

– *Oil & Gas Major*

“Having guidance and principle-based approach would be so helpful.”

– *Asset Manager*

“Specific guidance on each metric to ensure application consistent across corporates (would be helpful in navigating the requirements)”.

– *Asset Manager & Asset Owner*

“Use of international standards where available to improve consistency (are the changes we would make to DNSH).”

– *Asset Manager & Asset Owner*

“(We) want the DNSH simplified, and referencing as few different sources as possible.”

– *Multinational Bank*

“DNSH criteria aren’t easy at present to translate into something that is easy to operationalise at a corporate level. This will require a lot more work from experts designing and preparing the DNSH... but is really worth doing.”

– *Environmental NGO*

“Consistency with existing reporting to be the most useful aspect to consider.”

– *Defence Multinational*

“Everyone in asset management uses their own definition of significant harm. (It) could be made more simple, and DNSH could be made more common across a spread of asset classes, (with a) shorter list for increased accessibility.”

– *Asset Manager*

DNSH disclosure opportunities

Similarly, from market testing, we heard the following opportunities relating to improving disclosure around DNSH.

“(A disaggregated approach) table with these levels of disclosures, then investors would understand very clearly what this company is, their green disclosures, high risk areas and what they’ve done to de-risk it.”

- Asset Manager & Asset Owner

“(The taxonomy) needs to extend this framework for it to include a traffic light rating... Would provide a lot more information for all relevant stakeholders.”

- Environmental NGO

“...as a principle, (we) would always support a risk based approach.”

- Environmental Regulator

“(We) would prefer more risk-based approach similar to a due diligence”.

- Asset Manager & Asset Owner & Insurer

“(For) the investor decision, at least they have the information of which criteria have been met or not met and reasoning – it then becomes an investor decision to decide whether to report an activity or not. DNSH can then support transparency.”

- Environmental Regulator

“From a reporting perspective, we’d want to say that companies are 90% aligned opposed to 100% yes or no.”

- Banking

“As investors we would want to know what % of their business was actually aligned with substantial contribution objectives vs the bits they had to fail because of DNSH.”

- Asset Manager & Asset Owner

Survey Questionnaire (1/4)



Survey Questionnaire- Respondent Information	
Question	Response
What is the name of your firm?	
What is your position?	
Which of the below best reflects your sector? [Select one]	Agriculture, Forestry and Fishing
	Mining and Quarrying
	Manufacturing
	Electricity, gas, steam, and air conditioning supply
	Water supply, sewerage, waste management and remediation activities
	Construction
	Wholesale and retail trade; repair of motor vehicles and motorcycles
	Transportation and storage
	Accommodation and food service activities
	Information and communication
	Financial and insurance activities
	Real estate activities
	Professional, scientific, and technical activities
	Administrative and support service activities
	Public administration and defence; compulsory social security
	Education
Human health and social work activities	
Arts, entertainment, and recreation	
Other service activities	
If you selected "Financial and Insurance Activities", then please identify which part of the financial services industry best represents the main part of your firm [Select one]	Bank
	Asset manager
	Asset owner
	Financial advisor
	Wealth manager
	Alternative investment
	Data/research provider
	Other service provider
Other	

Survey Questionnaire (2/4)

Survey Questionnaire- Background & Understanding	
Question	Response
What is your understanding of the Do-No-Significant-Harm (DNSH) principle in context of taxonomies? [Select one]	Very high
	High
	Moderate
	Low
Is the fundamental purpose of DNSH principle in the context of taxonomies clear? [Select one]	Very clear
	Clear
	Somewhat clear
	Not at all clear
What do you see as the fundamental purpose of the DNSH criteria?	
To what extent do you agree that the principle of DNSH is important? i.e. the idea that in order for an activity to qualify as being 'environmentally sustainable', it must not significantly harm any of the six Environmental Objectives [Select one]	Extremely important
	Important
	Somewhat important
	Not at all important
Survey Questionnaire- Current use-case	
Is your firm currently reporting against the EU taxonomy? [Select one]	Yes, required – whole firm
	Yes, required – subsidiaries
	Yes, voluntarily
	Preparing to report in the next 12 months
	No
	Other [Please elaborate]:
How does your company currently use the EU taxonomy? Select all that apply.	Disclosure tool to raise financing
	Disclosure tool to comply with regulations
	Guide for your investment and financing strategy (determining if your potential investments can be classified as sustainable)
	Inspiration for your investment strategy
	Labelling of green/sustainable products (for marketing)
	Help improve firms own ESG rating / credentials
	Green finance targets – setting and reporting
	Client / investment due diligence
	Supporting climate risk management
	As an input to setting firms own bespoke taxonomy / classification framework
	Other [Please elaborate]:

Survey Questionnaire (3/4)

Survey Questionnaire- Key challenges with DNSH			
Question	Response		
What are the key challenges faced by your firm related to DNSH criteria?			
On a scale of 1-5, where 1 is strongly disagree and 5 is strongly agree, to what extent do you agree that: [Please add your number in the far right column]	DNSH criteria can be understood		
	DNSH criteria can be measured		
	DNSH criteria can be complied with and evidenced		
	DNSH criteria are integrated with the broader reporting environment		
	DNSH criteria are inconsistent and duplicative		
Are there any anecdotes you can share that highlight usability challenges particularly well? To reiterate, all responses will be anonymised and generalised in the research findings report.			
To improve the usability of DNSH criteria in the UK Taxonomy, would you prefer more of less with respect to the below elements that together inform the composition of DNSH:	Description length of individual DNSH criteria: more OR less	More <input type="checkbox"/>	Less <input type="checkbox"/>
	Specific requirements within individual DNSH criteria (e.g. thresholds, processes): more OR less	More <input type="checkbox"/>	Less <input type="checkbox"/>
	Guidance references within individual DNSH criteria (e.g. standards, regulation, etc.): more OR less	More <input type="checkbox"/>	Less <input type="checkbox"/>
	Context elaborating on requirements within individual DNSH criteria: more OR less	More <input type="checkbox"/>	Less <input type="checkbox"/>

Survey Questionnaire (4/4)



Survey Questionnaire- Opportunities to improve DNSH	
Question	Response
Thinking about DNSH, what (if any) guidance would be helpful for your firm in navigating requirements?	
Are there any specific changes you would make to DNSH requirements overall? What are they and why?	
Are there any specific changes you would make to DNSH requirements for your sector specifically? What are they and why?	
What are your views on reporting taxonomy alignment disclosure requirements?[Select one]	DNSH disclosures should be 100% 'all or nothing'
	DNSH disclosures should adopt a risk-based due-diligence approach whereby companies can report % alignment with taxonomy requirements
	Not sure
	Other [Please elaborate]:
Can you please elaborate on your above preference?	
Thinking about your sector-specific requirements, are there any international standards that your firm would like to see integrated into a UK taxonomy's DNSH criteria? (e.g. UN conventions, ISO standards, etc.)	
Thank you for your time, is there anything else you would like to add?	

Interview questions – end user stakeholders

The following questions are intended to serve as a guide to support stakeholder consultations and focus groups.

Background and understanding

- Can you please provide a brief overview of your organisation and your role in it?
- What is your understanding of the EU Green Taxonomy and the concept of 'Do No Significant Harm'?
- Is it clear why taxonomies are in place and what they should/could be used for?
- Can you please share your understanding and views on the government's plan to establish a UK Green Taxonomy?
- On a scale where 1 is 'not at all useful & important' and 5 is 'extremely useful & important', to what extent do you agree that the principle of DNSH is useful and important?

Current use case

- Is your company currently required to report on taxonomy alignment?
- How does your company currently use the EU taxonomy? How is DNSH considered as part of this?
- What is the process for fulfilling the DNSH criteria and reporting alignment against them?
- How is this integrated across governance, strategy, measurement, verification and reporting?

Key challenges

- What do you consider the key challenges of aligning with the EU Taxonomy and reporting alignment against the EU Taxonomy?
- What are the specific usability challenges related to DNSH and how do these impact alignment, fulfilling the TSCs and DNSH criteria, evidencing, etc.?
 - *Probe: Have you had any issues with understanding/integrating/complying with/evidencing/communicating DNSH criteria requirements?*
- How does your company navigate EU Taxonomy related disclosure requirements and links with other disclosure legislation/standards (e.g. TCFD, SFRD)?
 - *Probe: What mechanisms and controls are needed to optimise flows between these?*
- International interoperability is a key objective of the UK Green Taxonomy – have you faced any challenges categorising assets and reporting across different jurisdictions?
- In addition to those discussed, our interim research found that DNSH usability may also be impaired by [key findings not raised unprompted] – do any of these resonate?
- Are there any anecdotes you can share that highlight the challenges discussed particularly well?

Opportunities for improvement

- Thinking about how the UK can build on learnings from the EU, what would make reporting alignment against the Taxonomy and DNSH criteria easier?
 - *Probe: Should there be target thresholds for DNSH criteria length, referencing requirements, supplementary guidance notes, etc.?*
- How can the challenges discussed today be addressed in the UK Green Taxonomy? What would be most helpful?
- What are your views on the use of DNSH criteria as a risk-based due-diligence tool as opposed to an all-or-nothing mandatory approach? What are the benefits and pitfalls of these?
- What are your views on the a comply and explain approach to the DNSH, or a disaggregated approach to disclosure (% alignment against each condition of Taxonomy- SC, DNSH and MSS)?
- Will providing guidance on "equivalent information" resolve the issues of unavailability of granular data requirements? In your view will this be feasible to increase taxonomy alignment?
- For financiers, what are your views on how corporates should report alignment to EU Taxonomy/DNSH?
- In addition to those discussed, our interim research found that [key opportunities not raised unprompted] – do any of these resonate?

Closing

- To close with some rapid fire questions, on a scale where 1 is strongly disagree and 5 is strongly agree, to what extent do you agree that DNSH criteria:

Can be understood

Can be measured

Can be complied with and evidenced

Are integrated with broader reporting

Are inconsistent and duplicative

- If the DNSH are revised to be more streamlined and usable, do you see these as being useful in your decision-making?
- Is there anything not covered today that you'd like to discuss?
- To play back my understanding, the key challenge I heard from you today is [x] and the key opportunity is [x], is that a fair assessment?
- Would you be willing to participate in a future online survey to further explore the above issues? Do you have other stakeholders who would be interested?

Interview questions – strategic integration stakeholders

The following questions are intended to serve as a guide to support stakeholder consultations and focus groups.

Background and understanding

- What is your understanding of the EU Green Taxonomy and the objective of taxonomies more broadly?
- What is your understanding of the concept of 'Do No Significant Harm'?
- Is it clear why taxonomies are in place and what they should/could be used for?
- Can you please share your understanding and views on the government's plan to establish a UK Green Taxonomy?
- On a scale where 1 is 'not at all useful & important' and 5 is 'extremely useful & important', to what extent do you agree that the principle of DNSH is useful and important?

Current engagement

- Can you tell us about the nature and role of [stakeholder] engagement on the [EU taxonomy]/[development of a UK taxonomy]?
- What are your views on the fundamental purpose of DNSH criteria?
- Who are your key stakeholders with respect to your engagement on taxonomy and DNSH?

Key challenges

- What challenges do you face in your role with respect to the EU Taxonomy and DNSH criteria?
- Are you aware of any usability challenges faced by end users of the taxonomy specific to DNSH?
 - *Probe: For example, across governance, strategy, measurement, verification and reporting?*
- Are there any anecdotes you can share that highlight these challenges particularly well?
- In addition to those discussed, our interim research found that DNSH usability may also be impaired by [key findings not raised unprompted] – do any of these resonate?

Opportunities for improvement

- What is the role of the UK Taxonomy in the broader ecosystem of frameworks? To what extent should broader ESG indicators / standards be integrated and how?
 - *Probe: What mechanisms and controls are needed to optimise flows between key frameworks, e.g. SFDR, ISSB, TCFD?*
- Should DNSH be aligned to activity descriptions or be based on a set of principles underpinned by thresholds?
- What are the suitable parameters for key DNSH variables? For example, should there be target thresholds for DNSH criteria length, referencing requirements, supplementary guidance notes, etc.?
- How should robustness be ensured in DNSH? To what extent is robustness an outcome of increased usability?
- How can the challenges discussed today be addressed in the UK Green Taxonomy? What would be most helpful?
- What are your views on the use of DNSH criteria as a risk-based due-diligence tool as opposed to an all-or-nothing mandatory approach? What are the benefits and pitfalls of these?
- What are your views on the a comply and explain approach to the DNSH, or a disaggregated approach to disclosure (% alignment against each condition of Taxonomy- SC, DNSH and MSS)?
- Will providing guidance on "equivalent information" resolve the issues of unavailability of granular data requirements? In your view will this be feasible to increase taxonomy alignment?
- In addition to those discussed, our interim research found that [key opportunities not raised unprompted] – do any of these resonate?

Closing

- To close with some rapid fire questions, on a scale where 1 is strongly disagree and 5 is strongly agree, to what extent do you agree that DNSH criteria:

Can be understood

Can be measured

Can be complied with and evidenced

Are integrated with broader reporting

Are inconsistent and duplicative

- If the DNSH are revised to be more streamlined and usable, do you see these as being useful in your decision-making?
- Is there anything not covered today that you'd like to discuss?

Table of External Stakeholders consulted

List of Stakeholders – Direct Consultations	
Stakeholder Type	Industry
Financial Institution	Asset Manager
	Asset Manager
	Asset Manager & Asset Owner
	Asset Manager & Asset Owner & Insurer
	Asset Manager & Asset Owner & Insurer
	Asset Manager & Insurer
	Banking
	Banking
	Banking
Multinationals	Defence
	Manufacture
	Energy & Natural Resources
	Energy & Natural Resources
Strategic Partners	Environmental Regulator
	Financial Regulator
	ENGO

Appendix F: GTAG members and acknowledgements

Chair: **Ingrid Holmes**, Green Finance Institute

Users of the taxonomy – Financial Services:

- **Faith Ward**, Institutional Investors Group on Climate Change
- **James Alexander**, UK Sustainable Investment and Finance Association
- **Elizabeth Gillam**, International Regulatory Strategy Group

Users of the taxonomy – Non-Financial Services

- **Nick Molho**, (June 2021 – June 2023) Aldersgate Group
- **Rain Newton-Smith** (June 2021 – January 2023),
Flora Hamilton, (January 2023 – May 2023), Confederation of British Industry

Taxonomy & Data Experts

- **Mike Thompson** (June 2021 – January 2023),
Bea Natzler (January 2023 – present), Committee on Climate Change
- **Alyssa Heath** (June 2021 – August 2021),
Olivia Mooney (August 2021 – February 2022),
Margarita Pirovska (February 2022 – July 2022),
Eliette Riera (July 2022 – present), Principles for Responsible Investment
- **Prashant Vaze** (June 2021 – March 2022),
Anna Creed (March 2022 – January 2023),
Matteo Bigoni (January 2023 – present), Climate Bonds Initiative
- **Lily Dai**, FTSE Russell, London Stock Exchange Group
- **Nadia Humphreys**, Bloomberg
- **Anna Bond** (June 2021 – January 2022),
Katie Spooner (January 2022 – present), Environment Agency

Academia & Subject Matter Experts

- **Paul Fisher**, Cambridge Institute for Sustainability Leadership
- **Ben Caldecott** (June 2021 – August 2022),
Nicola Ranger (August 2022 – present), Centre for Greening Finance and Investment and Oxford Sustainable Finance Group / University of Oxford
- **Nick Robins**, Grantham Institute / London School of Economics
- **Theodor Cojoianu**, Queen’s University / University of Edinburgh
- **Rhian-Mari Thomas**, Taskforce on Nature-Related Financial Disclosures (TNFD)

NGOs

- **Kate Levick**, E3G
- **Karen Ellis**, WWF

Ad-hoc Members

- **Rachel Barrett** (August 2022 – present), Linklaters
- **Mark O’Sullivan** (August 2022 – present), PwC
- **Amanda Swaffield** (August 2022 – present), Deloitte
- **Jeffrey Twentyman** (August 2022 – present), Slaughter and May

Observer Group

- HM Treasury
- Department for Energy Security and Net Zero
- Department for Business and Trade
- Financial Conduct Authority
- Bank of England
- Other relevant HMG departments and regulators

The GTAG Chair and Secretariat would like to thank all the GTAG members and deputies for their time, effort and dedication to the work of the GTAG. Special thanks go to **Lily Dai**, who led this workstream. The GTAG Secretariat is led by **Ryan Jude**, working with **Charlotte Love, Victoria Spiteri, Sandie-Gene Muir, Adam Standage, Jonathan Heybrock, Amy Allan and Blanche de Biolley**.

