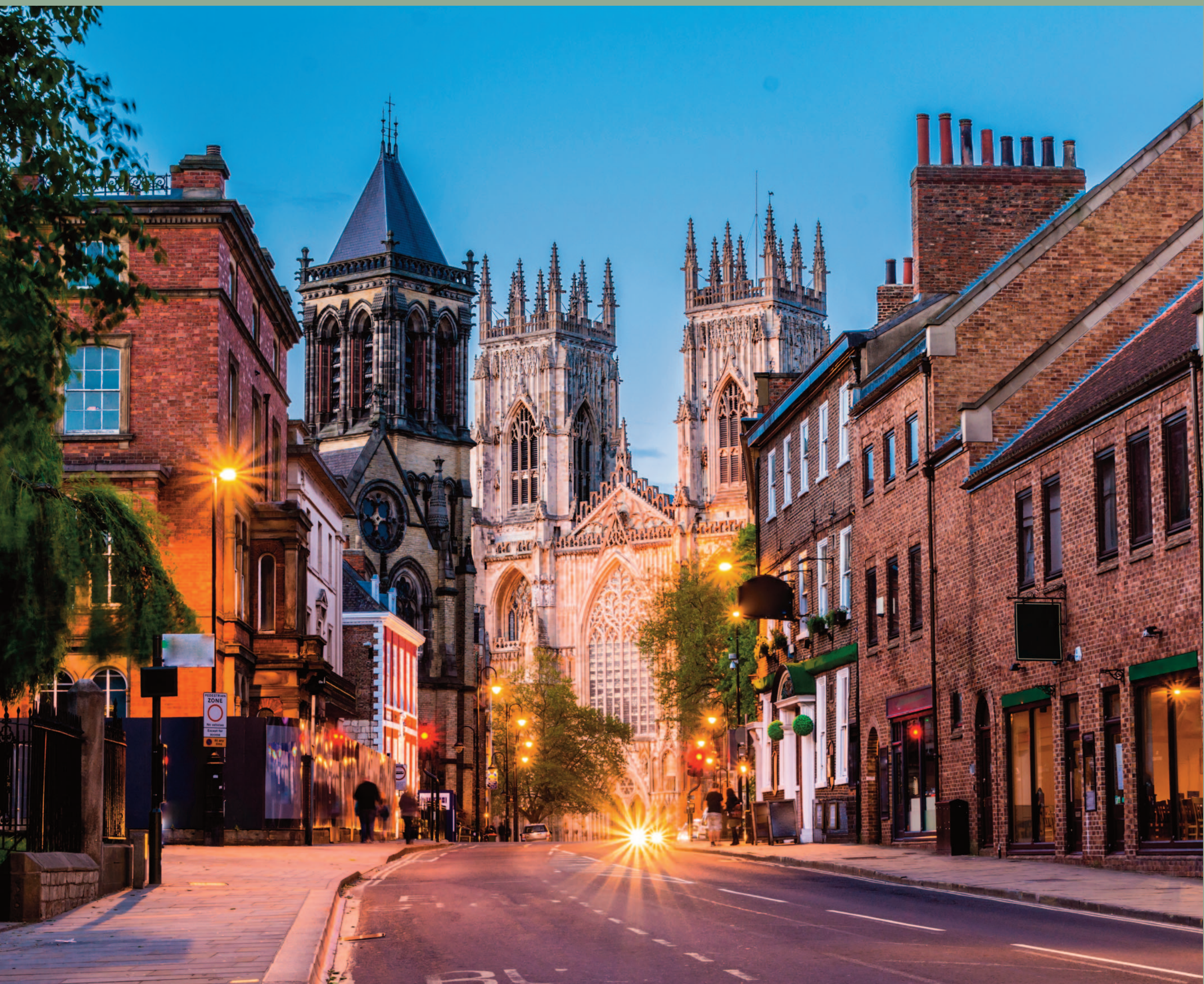
Green Technical Advisory Group

Creating an institutional home for the UK Green Taxonomy: exploring options



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Contents

Key points

- The UK Government (HMG) reaffirmed its commitment to implement a UK Green Taxonomy in 2023. This is positive. It also raises questions about the long-term governance arrangements for the UK Green Taxonomy, including how and by whom it will be updated and how the question of whether it is appropriate to develop a 'Transition Taxonomy' will be answered.

- The Green Technical Advisory Group (GTAG) has assessed the options for creating an 'institutional home' for the taxonomy. These are informed by HMG's stated preference for bringing forward taxonomy-related disclosures.

- As a least regrets options, GTAG recommends that in the short term (next 3-6 months) HMG establish an Advisory Body to support implementation/development of the taxonomy through executive action. This could be achieved either by providing additional funding and responsibilities to an existing body (e.g., the Financial Reporting Council/Audit, Reporting and Governance Authority (FRC/ARGA)[1] or creating a new entity (e.g., "GTAG 2.0").

- An Advisory Body in the short-term was decided to be the best option, as it can support both voluntary and mandatory approaches to disclosure and also advance final implementation of mandatory disclosures via either of the main routes set out in this paper.

- GTAG further recommends that in parallel, preparing for the medium-term (post end-2024), HMG should initiate the process of legislating for long-term statutory decision-making powers. Again, this could be through granting powers/responsibilities and financial support to an existing body or to create a new organisation. The statutory footing would strengthen investor confidence in the Government's commitment to a robust and science-based taxonomy and also strengthen the UK's institutional green finance capability and thus governance credentials, which will strengthen the UK's leadership on this agenda internationally.

- GTAG assessed options for giving powers to an existing Advisory Body. The FRC/ARGA appears to be a good fit. Its focus is on promoting transparency and integrity in business. The FRC has a lab function that is considering a number of sustainable finance-related issues, including leading the UK's cross-regulator project to digitise corporate reporting standards using eXtensible Business Reporting Language (XBRL)-based taxonomies and wider environmental, social, and governance (ESG) data issues. It is also supporting the Department for Business and Trade (DBT) on International Sustainability Standards Board (ISSB) implementation in the UK.It has experience of bringing in technical experts to develop new policy areas and seems to be a strong option to further explore as the taxonomy's institutional home – subject to sufficient funding and resources being made available.

[1] This would need the FRC Board's agreement.

The case for enduring governance arrangements for the UK Green Taxonomy

In its Green Finance Strategy 2023, the UK Government recommitted to implementing a UK Green Taxonomy, subject to consultation later in 2023[2]. This built on commitments in the 2021 publication Greening Finance: A Roadmap to Sustainable Investing, in which there is a stated expectation that the Government would review the taxonomy Regulation's effectiveness every three years and also consider whether enabling or transitional activities remain in line with the relevant taxonomy objectives[3].

This raises questions about who will review and, as needed, advise on the revision of the taxonomy. This includes whether it is appropriate to develop a 'Transition Taxonomy', as recommended by GTAG as potentially a medium-term objective[4]. In short, it raises questions about what governance arrangements are appropriate.

A range of options have been proposed by GTAG; it is worth noting this is not a question that has been resolved in any of the 35 jurisdictions that either have or are developing taxonomies[5]. The EU has partially addressed the issue by setting up an EU Platform on Sustainable Finance (PSF) 2.0, whose primary role is to advise the European Commission on the implementation and usability of the EU Taxonomy and the broader sustainable finance framework[6]. The PSF will also advise on new, and possible updates to existing, technical screening criteria (TSC) and is due to launch a stakeholder request mechanism to allow stakeholders to submit suggestions on new activities that could be included in the EU Taxonomy or on possible amendments to the TSC of existing activities.

GTAG also notes that were governance arrangements to be put in place – through establishing an 'institutional home' for the taxonomy – this home could provide (in the event further authority is bestowed to it through the appropriate mechanism) other useful functions, including but not limited to:

- Providing market engagement during the proposed initial UK Green Taxonomy voluntary reporting period;
- Tracking green financial flows in the UK;
- Advising on how the UK Green Taxonomy can underpin and strengthen wider relevant UK policy[7];
- Advising on whether other environmental objectives and social objectives should be included in the UK Green Taxonomy.

In addition, questions remain about how the government will maintain its guidance for best practice on transition planning after the remit of the Transition Plan Taskforce (TPT) concludes in February 2024. It is GTAG's view that any institutional home established for the UK Green Taxonomy, could also provide a home for Transition Plans.

In early GTAG discussions, a strong theme was the need for an independent body to provide advice on TSC revisions. This was due to some of the inherent challenges in providing objective advice on a very political set of real economy transition issues. Further, GTAG identified several core principles to serve as the foundation for how the independent body should be set up and operate. GTAG advised that the body should be:

- **Independent** and at **arm's-length** from HMG and the market to ensure rigorous focus on science.
- Able to access, or has, **scientific expertise** and **financial expertise** to support TSC development and revisions.
- **Nimble,** to facilitate responsive and dynamic decision-making.
- **Credible,** both with HMG and the market to ensure taxonomy is seen as **authoritative, transparent** and **accountable** – both in the UK and internationally to facilitate international interoperability.
- Has a **long-term source of funding** that aligns with the expectation the taxonomy will be revised and expanded to ensure usefulness to the market.

While the above is a useful starting point, it needs to be set against practical realities of the framework through which the taxonomy will be implemented. One informs the other.

[2] 2023 Green Finance Strategy
[3] Greening Finance: A Roadmap to Sustainable Investing
[4] https://www.greenfinanceinstitute.com/wp-content/uploads/2023/08/GTAG-Final-Report-on-Extended-Taxonomy.pdf
[5] As of May 2023 there are 47 taxonomies which are in development or have been announced, 29 of which are jurisdiction-led and 6 of which are hybrid.
[6] The Platform will also monitor and report capital flows towards sustainable investments.
[7] GTAG's advice on the value case for considering applying the UK Green Taxonomy to policy decisions is set out in the report 'Applying the UK Green Taxonomy to wider policies: the value case and options', found at https://www.greenfinanceinstitute.co.uk/wp-content/uploads/2023/08/GTAG-Final-Report-on-Policy-Links.pdf

The form of the disclosure approach will inform the institutional home options

In its Green Finance Strategy 2023, the Government states "After the taxonomy has been finalised, we will initially expect companies to report voluntarily against it for a period of at least two reporting years after which we will explore mandating disclosures." GTAG has identified a number of routes by which the taxonomy disclosures could be implemented. There are three options, as set out below. Depending on which option is adopted, a different 'institutional home' for the taxonomy is implied.

Option 1: Disclosures implemented via the Companies Act

The requirement to report taxonomy alignment would need to be implemented via a statutory instrument (SI) under the Companies Act[8]. While securing time within the Parliamentary timetable is challenging, approximately 3,500 SIs are made each year[9]. However, the potential length of the legal text for the UK Green Taxonomy opens up significant questions about the amount of time to pass through Parliament and further SIs would be required each time the legal text needs to be updated – to reflect TSC revision. The SI could, instead, be introduced to signpost a separate source of government-controlled information, which sets out the detail of the taxonomy. This could be, for example, a government web page that is given the necessary authority through directing users to it via the Companies Act SI.

Thought then needs to be given to the appropriate means by which to update the TSC. One option would be to delegate authority to update the TSC to a new, or existing, Statutory Decision-making body such as the Financial Reporting Council (FRC) / Audit, Reporting and Governance Authority (ARGA) or the Financial Conduct Authority (FCA). This would require primary legislation – a new Bill to define the form and function of these powers[10]. Another option could be to, through Executive action, delegate responsibility (while providing sufficient resources) for advising on the updating of the TSC to an Advisory Body (either Statutory such as the Committee on Climate Change or non-Statutory such as GTAG). The development of advice would need to follow due process, including consulting on proposals and providing feedback on responses as well as actions taken to address points raised.

[8] The procedural implementation process will be complex but is not the subject of this paper. GTAG assumes that as this will give effect to stated government policy, a means will be found in due course.

[9] Timing will depend on whether the SI is affirmative (20% of SIs are laid this way) or negative (80% of SIs are laid this way). Draft affirmative SIs laid in Parliament need to be approved by Parliament before they can be signed into law while negative SIs do not need active approval from Parliament and can be signed by the minister before being laid.

[10] There could be scope to add powers to the FRC/ARGA by adding a short amendment to the draft Companies (Strategic Report and Directors' Report) (Amendment) Regulations 2023, that is currently making its way through Parliament. However, this would need to be done promptly before, or if the Bill receives Royal Assent.

Option 2: Disclosures implemented via changes to the FCA Handbook

The requirement to report taxonomy alignment could also be implemented through the FCA Handbook, including through amendments to the Listing Rules, Prospectus Regulation Rules Sourcebook, or the Disclosure Guidance and Transparency Rules Sourcebook. Subject to the FCA being able to satisfy itself that it is appropriate to make the rules[11], this option may provide more flexibility than option 1, insofar as it would not require statutory implementation. To the extent that the Handbook referred directly to the taxonomy, the rules would need to be updated each time revisions are made to the taxonomy to ensure that the correct version is being referenced[12]. However, the scope is limited to financial actors who are authorised by the FCA and may not apply to all UK companies. In addition, further guidance may be needed for the market given that the Listing Rules draw no distinction between UK-headquartered and non-UK headquartered companies, and differentiated reporting requirements may be desirable.

Under this scenario, the FCA would still need to follow due process for implementing the disclosure requirements – in particular, it would need to satisfy itself that making the rules in relation to authorised firms is compatible with, and advances, its statutory objectives[13], and follow the usual process of issuing a discussion paper followed by a public consultation and consideration of feedback[14] – but would not be subject to parliamentary oversight. As with option 1, the full taxonomy would not necessarily need to be included within the Handbook. Instead, again, the taxonomy could be 'held' as a separate source of government-controlled information, for example, a government web page. The Handbook would, however, likely need to reference the taxonomy at a certain point in time, with updates being made to the relevant rules in accordance with any revisions to the taxonomy.

Looking ahead, in terms of developing any revisions to the TSC themselves, under option 1 or option 2 advice on this could be provided either by an Advisory Body or a Fully Independent Body. The test would be for the recipients of that advice to be satisfied that due process has been followed by the body providing it, whatever form that body took. This model follows the approach taken with implementing the TCFD into financial regulation.

Option 3: Voluntary approach

This route would envisage a taxonomy being published on a government website or a non-government website linked to a credible organisation 'sponsoring' the taxonomy. In this scenario an Advisory Body or a Fully Independent Body could develop and revise TSC. This approach could be a route for government to fulfil its commitment to implement the taxonomy on a voluntary basis in the first instance, though if the intention is to move to mandatory disclosures, it would seem most appropriate to future-proof short-term actions by selecting the option of setting up an Advisory Body with the taxonomy itself sitting on a government web page.

A summary of how the approach to disclosures for the UK Green Taxonomy imply a different institutional home can be seen in Figure 1 on the next page.

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[11] Applying the necessary tests under s.137A of the Financial Services and Markets Act 2000.

[12] The FCA Handbook was able to refer to the final Taskforce on Climate-related Financial Disclosure (TCFD) recommendations directly.

[13] In particular, the FCA must be satisfied that making rules is compatible with its strategic objective (to ensure that relevant markets function well) and that the rules advance one of more of its operational objectives (i.e. consumer protection, protecting market integrity, and promoting competition in the interests of consumers). Further, the FCA must also consider the objective of advancing the competitiveness and growth of the UK economy.

[14] As required under s.138I of the Financial Services and Markets Act 2000.

Figure 1: Summary of disclosure options for the UK Green Taxonomy and implied institutional home.

Option 1: Disclosures implemented via the Companies Act	**Option 2:** Disclosures implemented via changes to the FCA Handbook	**Option 3:** Voluntary approach
How?	**How?**	**How?**
Statutory instrument (SI) under the Companies Act	Amendments to Listing Rules or existing sourcebooks	Taxonomy published on government (or credible organisation) website
Process for updates?	**Process for updates?**	**Process for updates?**
Further SIs for legal text updates (e.g. changes to technical screening criteria (TSC))	Existing FCA due process for implementing disclosures (discussion paper, consultation, feedback)	Updates made by advisory body
or	**or**	**or**
Original SI signposts separate source that is updated e.g. government web page	Original amendment signposts separate source that is updated e.g. government web page	Updates made by independent body
Process for advice on changes?	**Process for advice on changes?**	**Process for advice on changes?**
Delegate authority to a Statutory decision making body (would need primary legislation, or amendment to existing bill)	Could be advised by an advisory body (but would need to satisfy due process requirement)	Advice provided by advisory body
or	**or**	**or**
Delegate responsibility for advising to an advisory body by executive action	Could be advised by an independent body (but would need to satisfy due process requirement)	Updates provided by independent body

Institutional home options

As noted in the above there are three institutional home options to review and advise on the revision of the UK Green Taxonomy.

Option A: Statutory Decision-making Body

Under this option, decision-making authority is conferred on a particular body for revising and updating the TSC. Authority will likely need to be established through primary legislation (either a Bill to amend a current Act or to create a new Act) to establish a new body or to grant powers to an existing organisation. Benefits may include the opportunity to create security of funding by building it into the Bill i.e. powers to make a statutory levy; the ability to embed taxonomy reporting across all companies, public and private; theand strengthening the institutional green landscape in UK. The approach provides political independence to the process of developing and revising TSC, although in reality the decision-making body would likely need to work in collaboration with HMG to ensure consensus is built and would likely have a statutory obligation to consult on new/revised TSC as developed. Challenges include the time taken to get the powers established in law.

The statutory basis of the organisation means this route would take the greatest amount of time to set up (given the dependency on the parliamentary timetable) – although functions could be being set up in parallel to powers being created. This will require high standards of transparency and accountability – e.g. public appointment of members, meetings in public etc. (see Annex for more detail on the pros and cons).

Option B: Advisory Body to government

The body could advise HMG on developing, revising and adding to the taxonomy. Due process in developing TSC, including likely issuing and responding to public consultation, would be obligatory for advice to be considered – but HMG would be free to not accept the advice. If advice is accepted, HMG would still need to conduct its own consultation on TSC in the usual way. This option could provide some political independence to the process of developing and revising TSC, although in reality the advisory body would likely need to work in collaboration with HMG to ensure consensus is built. The body could be set up by Executive action (i.e. without the requirement for parliamentary process) and thus will be quicker to establish – and could be set up by delegating responsibility to a new body or an existing body (even if a Statutory Adviser, although sufficient additional funding and resources would be required). It will likely require high standards of transparency (see Annex), although not as onerous as for a Statutory Decision-making Body.

Benefits of this approach include the option to support the embedding of the taxonomy into law via either disclosure route described (i.e. via the Companies Act or via the FCA Handbook) and the fact that such a body could facilitate more nimble consultation with the market to ensure best advice is provided. Challenges include the fact that advice provided on TSC revisions may not be taken up by HMG, once provided, and that the route to funding may be less secure.

Option C: **Fully Independent Body**

The body should be quick to establish, for example as a new private company or a subsidiary of an existing one. It could support a voluntary disclosure approach. High standards of transparency would be desirable but not obligatory. Due process – for example issuing and responding to public consultation - in developing the TSC would be desirable for advice to be considered, but not obligatory.

Benefits include the fact that the body should be quick to establish. This option would provide political independence to the process of developing and revising TSC – but would not support a step change from voluntary to mandatory disclosures.

Recommendations

Given the uncertainty under which this advice is being provided, GTAG recommend at this time that the least regrets option for an institutional home for the taxonomy is an Advisory Body to Government. The rationale for this is it can support both voluntary and mandatory approaches to disclosure and, further, mandatory disclosures via either route to final implementation.

In the short-term Executive action should be used to allocate the funding, responsibilities and resources needed to create an institutional home. In parallel, GTAG recommend HMG begin the process to legislate for an institutional home with a statutory footing. This approach carries several benefits. Firstly, it enables swift establishment with sufficient resource to support the voluntary phase of disclosure implementation. Secondly, it allows time to secure enduring arrangements to enhance the UK's green finance capability and governance credentials. Lastly, by bolstering these aspects, the UK's international leadership on this agenda is strengthened.

GTAG members also opined on whether a new Advisory Body, for example GTAG 2.0. should play this role or an existing Advisory Body – and if so which. The Committee on Climate Change, the Environment Agency, FCA and FRC/ARGA were all considered in some depth.

The **Committee on Climate Change** has a wide mandate to advise UK and devolved governments on emissions targets and to report to Parliament on progress made in reducing greenhouse gas emissions and preparing to adapt to climate change. It has significant scientific expertise relating to climate mitigation and adaptation technologies and pathways. However, it is not a regulator – and does not have extensive financial markets expertise. Thus, there **does not appear to be a strong institutional fit[15].**

The **Environment Agency,** England's environmental regulator is responsible for: regulating major industry and waste; treatment of contaminated land; water quality and resources; fisheries; inland river, estuary and harbour navigations; and conservation and ecology. They are also responsible for managing the risk of flooding from main rivers, reservoirs, estuaries and the sea. Expertise in climate change adaptation and wider environmental issues is significant. However, it does not have extensive financial markets expertise. Thus, there **does not appear to be a strong institutional fit[16].**

The **FCA's** strategic objective is to ensure that markets function well, with specific operational objectives in relation to consumer protection, protecting the integrity of the financial systems and promoting effective competition in the interests of consumers, and a further objective to facilitate the competitiveness and growth of the UK economy. It has a large and growing remit that includes having regard for government ambitions on sustainable finance. Nonetheless, while the FCA Handbook does seem to be a potential option to reference UK Green Taxonomy-related disclosures, **developing out a UK Green Taxonomy does not appear to sit well with wider existing FCA capabilities and functions.**

The **FRC/ARGA** appears to be a better fit. It regulates auditors, accountants and actuaries, and sets the

[15] It will have a key role to play, subject to sufficient resources being made available, in advising on updating TSC based on evolving emissions pathways analysis.

[16] It will have a key role to play, subject to sufficient resources being made available, in advising on updating TSC.

UK's Corporate Governance and Stewardship Codes. Its focus is on promoting transparency and integrity in business. The FRC has a lab function that is considering a number of sustainable finance-related issues, including leading the UK's cross-regulator project to digitise corporate reporting standards using XBRL-based taxonomies and wider ESG data issues. It is also supporting the Department for Business and Trade (DBT) on ISSB implementation in the UK. Thus, the FRC has experience of bringing in technical experts to develop new policy areas and **seems to be a strong option to further explore as the taxonomy's institutional home – subject to sufficient funding and resources being made available.** If this is the approach chosen, then the FRC/ARGA should also consult with the Climate Change Committee (CCC) or other advisory groups on the screening criteria, to ensure scientific rigour and comparison to the UK's emissions pathway.

In terms of securing the medium-term statutory solution proposed, a new Bill could be drafted to amend the Financial Services and Markets Act or the Companies Act to grant powers to the FRC/ARGA, if deemed suitable, or to set up and fund a new organisation that could 'house' the taxonomy, Transition Plans and other green finance regulatory tools.

Annex: Governance considerations in more detail

There are a range of levels of formality to arrangements from a statutory decision-making body to a fully independent industry-led approach, and pros and cons to each of these. These are set out below.

Option A: Statutory Decision-making body

Overview: For the purposes of this paper, a statutory decision-making body is an organisation or entity either established by an Act of Parliament, or acting under powers conferred by statute to, while accountable to government, operate on an independent basis in relation to a specific regulated area. The legislation grants the body authority to make decisions and judgements within its designated jurisdiction and provides the legal framework within which they must operate. Bodies are accountable to UK government, typically led by a board or committee, members are publicly appointed, and processes are subject to formal accountability and reporting requirements which often need to be made accessible to the public.

Three examples are provided below.

1. **Financial Conduct Authority (FCA):** a UK company limited by guarantee, with authority under the Financial Services and Markets Act 2000 to make various decisions with regards to the regulation and oversight of financial markets and firms[17]. Its members are directly appointed by HM Treasury. The FCA, while having parliamentary and regulatory oversight, is mandated to publish an annual report and accounts, and is subject to periodic independent reviews. Although accountable to HM Treasury, the FCA is funded through fees charged to the firms it regulates. These fees include charges for authorising firms, charging permissions, and annual fees determined based on the FCA's fee rates and policies. Additionally, the FCA collects fees and levies to pay for other services, such as their Money and Pensions Service.

2. **Financial Reporting Council (FRC)/Audit, Reporting and Governance Authority (ARGA):** HMG will establish ARGA as the successor to the Financial Reporting Council (FRC). HMG intends to give ARGA statutory funding to operate on an independent basis – i.e. powers to make rules that require market participants to pay a levy to meet the costs of carrying out its regulatory functions. These would include fees for enforcement regimes for auditors, accountants, directors and actuaries.

3. **UK Endorsement Board (UKEB):** Enacted through Companies and Limited Liability Partnerships 2019 regulations made under the EU Withdrawal Act 2018, the UKEB has the authority to make decisions regarding the endorsement and adoption of International Financial Reporting Standards (IFRS) into UK law. The UKEB is an unincorporated association and is accountable to the Department for Business and Trade for its statutory functions and to the FRC in respect of its governance and due process. The UKEB is funded through the FRC annual Preparers Levy.

[17] This includes granting licenses to financial institutions, setting rules and regulations for market participants, investigating and enforcing compliance with financial regulations, and imposing penalties or sanctions for non-compliance.

Pros

- **Transparency and credibility:** high-level of transparency to ensure accountability and public trust. Board members should adhere to a code of conduct and publish minutes of board meetings. Rules and regulations must be publicly consulted on – which often means they have existing frameworks for stakeholder engagement and consultation that TSC revision and consultation could tap into. Bodies need to publish annual reports of activities and internal audits. And, as independent statutory authorities, are ultimately accountable to Parliament – who can conduct hearings and inquiries to scrutinise operations to hold bodies accountable.
- **Funding:** the authorities often have powers to secure funding outside of UK government sources through the functions they provide for the market. This could be a route to secure funding for TSC revision.

Cons

- **Timing:** would take the longest to set up. While a statutory body can provide a high-level of scrutiny and oversight, they can take several years to establish, set up and operate.
  - A Primary Act is usually needed to establish the body or provide the delegated powers to an existing organisation. Legislative processes of drafting, review, consultation, and parliamentary approval can and has taken years.
  - Once the legislation is enacted, members need to be recruited and appointed by the relevant HMG Ministers.
- **Nimble:** Statutory decision-making processes may limit the ability to adapt quickly to emerging trends and market feedback which would likely hinder TSC revision.

Option B: Advisory Body to government

An independent advisory body to government can be set up either through primary legislation to provide statutory advice or Executive action to provide non-binding advice. They can operate independently from the government in terms of decision-making, expertise, and accountability.

Two examples are provided below:

1. **Statutory Advisory Body:** The Climate Change Committee (CCC), established under the Climate Change Act 2008, primarily serves as an independent advisory body[18] - to advise the UK government, Parliament and the devolved administrations on cutting emissions and adapting to climate change. Their advice on carbon budgets and emissions from international aviation and shipping has statutory footing — to date no carbon budgets have been rejected. HMG can also request additional non-statutory advice, e.g. the request to advise on the UK's Nationally Determined Contribution (NDC)[19]. However, additional advice is within the remit of the CCC's statutory duties[20]. CCC analysis is also often used in Parliament by Opposition politicians to raise climate ambition. The CCC must publish its advice and the minutes of its meetings. HMG (Department for Energy Security and Net Zero (DESNZ) and the Department for Environment, Food & Rural Affairs (DEFRA)) and the devolved administrations appoint the Chair and the Committee Members and provide the CCC with an annual budget.

2. **Non-Statutory Advisory Body:** GTAG was established through Ministerial appointment to provide independent, non-binding advice to the Government on developing and implementing a green taxonomy in the UK context. Funding is provided from HMG sources. HMG is free to not accept GTAG's advice, but GTAG collaborates with HMG to ensure consensus is built.

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[18] The CCC can also form independent Advisory Groups to the CCC e.g. the Advisory Group on Finance (AGF) to advise the CCC on the role of finance in meeting the 6th Carbon Budget.

[19] Letter from the then Secretary of State for Business, Energy and Industrial Strategy, Alok Sharma to the Climate Change Committee regarding the UK's Nationally Determined Contribution.

[20] For example. HMG could request that the CCC advise on the role of the taxonomy in delivering carbon budgets, but HMG could not set up the CCC as the institutional home without sufficient additional funding and resources.

Pros

- **Timing:** Could be set up by Executive action and thus will be quicker to establish – this would also remove the need to publicly appoint members when recruiting scientific and financial expertise. If adding on functions to a statutory advisory body – members would still likely need Ministerial approval.
- **Nimble:** While a lower level of scrutiny and oversight, non-statutory bodies such as GTAG can offer more agile review processes, as they are not bound by statutory requirements and can adapt approaches to evolving trends and market feedback.
- **Credible:** Could be set up by delegating responsibility to an existing body (even if a Statutory Advisor) such as the CCC which is credible with HMG, the devolved administrations, and the public. The CCC has gained a reputation as an authoritative advisor not only on matters of climate policy, but on climate-smart public policy more generally. However, while the advisory body may have credibility in their respective areas of expertise, TSC revision will require additional functionality (financial or scientific) which may take time to build.
- **Access to scientific and financial expertise:** Could recruit scientific and financial expertise without public appointment and if adding functions to an existing body there will be existing frameworks to engage with external experts to support TSC revision.
- **Transparency:** This option would not require the full transparency that is required for a statutory decision-making body, but given the body would provide advice to HMG, advice would still need to be more in the public domain than under option C. However, the body could have more autonomy on how that should operate, when compared to option A.

Cons

- **Funding:** Route to funding may be less secure than a statutory decision-making authority. A statutory advisor is ultimately subject to the public sector budget, although this would likely be more secure than a non-statutory advisor which would rely on ad-hoc funding sources. If adding additional duties outside the normal remit of the body e.g. the CCC – then the body would need a lot more additional funding and resources to carry out taxonomy functions.
- **Independent:** If using a non-statutory independent adviser HMG is free to not accept the advice, however, the advisor would collaborate with HMG throughout TSC revision and if advice is accepted HMG would still need to consult on TSC in the usual way.

Option C: Fully Independent Body

A market-led voluntary organisation, while they may collaborate with government, operate independently outside of government oversight and scrutiny.

An example is provided below[21]:

1. **Task Force on Climate-Related Financial Disclosures (TCFD)** was established by the Financial Stability Board (FSB) in 2015 - as a means of coordinating disclosures among companies impacted by climate change - and made its first recommendations in 2017. Members are selected by the FSB and represent expertise across finance, risk management, climate change and sustainability. While the TCFD voluntarily publishes annual reports they do not publish minutes of board meetings and nor undergo external audits or reviews. Although the TCFD in not subject to a high-level of scrutiny and oversight it has gained credibility due to its industry-driven approach and the involvement of influential stakeholders such as through its founder - Michael Bloomberg. Recommendations started as voluntary but are rapidly becoming part of the mandatory regulatory framework in many jurisdictions – including the UK. The UK publicly consulted on the TCFD proposals before enshrining disclosures into law. The TCFD does not have a direct funding mechanism but relies on support from voluntary contributions, private donations, and the financial industry.

Pros

- **Timing:** This option would not require legislation or Executive action and thus be quick to establish and operate. FSB proposed the creation of the TCFD in November 2015, it was established in December 2015 and the first recommendations were released less than 2 years later.
- **Independent:** Option C would provide the most independence from HMG, as the body can operate autonomously outside of government oversight, though in reality they would need to work in collaboration with HMG to ensure consensus is built. However, HMG may be less likely to accept the advice than that given through option B.
- **Access to scientific and financial expertise:** Similar to option B, this option can allow for recruitment without public appointment. However, while this approach will have market expertise, credibility and existing market stakeholder groups to consult with – it could take time to build frameworks to consult with external scientific expertise.
- **Nimble:** As with option B, this approach can offer more agile review processes, as they are not bound by statutory requirements and can adapt approaches to evolving trends and market feedback.

Cons

- **Timing:** While not requiring a legislative route to establish, it could take time to galvanise market volunteers to establish the organisation.
- **Transparency and credibility:** This option provides no public appointments or government oversight and scrutiny. This may raise questions on the accountability and seriousness with which HMG will adopt advice and would require desirable, although not obligatory, transparency and governance standards for TSC revision. Once advice is provided, as with the TCFD proposals, any TSC revisions will still need to be publicly consulted on in the usual way.
- **Funding:** Out of all the options, this will likely find funding the most difficult to secure.

[21] Noting the FSB is an international organisation and not a UK organisation.

GTAG members

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
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- **Anna Bond** (June 2021 – January 2022), **Katie Spooner** (January 2022 – present), Environment Agency

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- **Karen Ellis,** WWF

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- **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

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Glossary

ARGA	Audit, Reporting and Governance Authority
CCC	Committee on Climate Change
DBT	Department for Business and Trade
DEFRA	Department for Environment, Food & Rural Affairs
DESNZ	Department for Energy Security and Net Zero
ESG	Environmental, Social, and Governance
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSB	Financial Stability Board
GTAG	Green Technical Advisory Group
HMG	His Majesty's Government
HMT	His Majesty's Treasury
ISSB	International Sustainability Standards Board
NDC	Nationally Determined Contribution
PSF	Platform on Sustainable Finance
SI	Statutory Instrument
TCFD	Task Force on Climate-related Financial Disclosures
TPT	Transition Plan Taskforce
TSC	Technical Screening Criteria
UKEB	UK Endorsement Board
XBRL	eXtensible Business Reporting Language