



Pensions for Purpose Limited

London, 05 February 2025

Response to UK Green Taxonomy Consultation

Introduction

Pensions for Purpose is a trade association representing a diverse range of stakeholders in the UK's financial industry, including asset managers, pension funds, endowments, foundations, charities, consultants, lawyers and advisers.

Our mission is to encourage the flow of capital towards sustainable and impact investing through education and engagement with industry stakeholders and policymakers. Since its inception, Pensions for Purpose has served as a hub for knowledge-sharing, advocacy and the integration of sustainable investment practices into decision-making across institutional investors, all while supporting robust financial performance.

This document sets out our response to the government's UK Green Taxonomy Consultation published on 14 November 2024. The deadline for this Consultation is 11:59pm on Thursday 6 February 2025.

Response to consultation

Please note:

1. Stakeholder information is included in the Appendix to this letter.
2. We have removed the questions to which we have no comment from this document.

Chapter 2 - Assessing Taxonomy use cases

Question:

- 1. To what extent, within the wider context of government policy, including sustainability disclosures, transition planning, transition finance and market practices, is a UK Taxonomy distinctly valuable in supporting the goals of channelling capital and preventing greenwashing?**
 - a. Are there other existing or alternative government policies which would better meet these objectives or the needs of stakeholders?**
 - b. How can activity-level standards or data support decision making and complement other government sustainable finance policies and the use of entity-level data (e.g. as provided by ISSB disclosures or transition plans)?**

Answer:

The most effective way to channel capital into sustainable investments is to make these investments financially attractive.

The UK government should consider mechanisms such as supportive tax regimes for sustainable companies, or carbon taxes for unsustainable companies, that help improve sustainable companies' financial performance and hence make them more attractive for investors.

A UK Green Taxonomy could help decide which business activities should be considered to be sustainable and therefore offered favourable tax and regulatory treatment. We see this as being a more productive application of a green taxonomy than it simply being used to inform an investor whether a company is sustainable – as ultimately an institutional investor will likely decide where to invest based on what is financially most attractive.

It is worth understanding whether or not a new UK taxonomy is needed to do this – there may be other ways to decide what comprises a sustainable activity or what would allow a company to obtain favourable treatment (for example, being B Corp Certified or meeting a ratified net-zero target). That being said, a taxonomy would likely help contain greenwashing.

It is also worth the government considering structural barriers currently preventing investors from channelling capital to sustainable investments. Many sustainable investments are accessed via private markets so are illiquid and closed ended in nature, preventing investors with significant liquidity constraints from holding them. For example, corporate defined benefit (DB) pension schemes often plan a path to buyout with an insurer and so need to hold low-risk, liquid assets that an insurer can accept. Some other government initiatives being considered, around surplus extraction, could help address this.

Question:

2. What are the specific use cases for a UK Taxonomy which would contribute to the stated goals? This could include through voluntary use cases or through links to government policy and regulation.

- a. What are respondents' views on the benefits of the proposed use case (paragraph 2.2)?**

Answer:

All the stated use cases could be helpful to meet the stated goals. However, the biggest impact is likely to come from the government's wider climate and environment strategy and the way this can be used to make sustainable products more financially attractive to investors, thereby mobilising capital into areas of the economy critical for transition. We note there are already a number of disclosure requirements for funds and portfolios, and additional disclosure requirements should only be put in place if they are expected to drive real world outcomes, rather than just being disclosure for the sake of disclosure.

Question:

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

Answer:

We have some concerns around the use case for application to investment fund and investment portfolio disclosures. We note there are already a number of disclosure requirements for funds and portfolios, and additional disclosure requirements should only be put in place if they are expected to drive real-world outcomes, rather than just being disclosure for its own sake.

Generally, we also have concerns that the practicalities of creating, consulting on and implementing a green taxonomy could delay the UK from achieving its goal of mobilising more capital into transition and sustainable investments. Investors may postpone allocating capital to sustainable activities until the taxonomy has been worked through and funds are able to achieve the relevant, anticipated label. If a UK taxonomy is introduced, these practicalities around timescale and governance burden should be considered. Initially introducing it on a voluntary disclosure basis may help address this concern.

Question:

- f. What is the role for government within each use case identified, if any (i.e. to provide oversight, responsible for ongoing maintenance, implement legislation, including disclosure requirements)?**

Government has a responsibility to create a policy environment that encourages investment in sustainable assets. To do this, they need to be clear about the steps they are taking to meet the UK's net-zero commitments and have policies to back this up. They should also create attractive tax and regulatory regimes for businesses and funds that are delivering positive sustainable outcomes.

Question:

- 3. Is a UK Taxonomy a useful tool in supporting the allocation of transition finance alongside transition planning? If so, explain how, with reference to any specific design features which can facilitate this.**

Answer:

It could be, if the UK Taxonomy is used to support the government to make transition finance more financially attractive to investors. The government may be able to implement a regulatory and tax regime that does this without the use of a UK taxonomy.

Chapter 3 - Key design questions

Question:

- 6. In which areas of the design of a UK Taxonomy would interoperability with these existing taxonomies be most helpful? These could include format, structure and naming, or thresholds and metrics.**

Answer:

Many of the asset managers who are members of Pensions for Purpose already use the

EU taxonomy, and other taxonomies, particularly where they have global portfolios. If a UK taxonomy is introduced, it should be interoperable and comparable with these other taxonomies in structure and naming. Thresholds and metrics may vary depending on regional specific circumstances and criteria.

Question:

11. What are the key design features and characteristics which would maximise the potential of a UK Taxonomy to contribute to the stated goals? Please consider usability both for investors and those seeking investment. This may include but not be limited to the level of detail in the criteria and the type of threshold (e.g. quantitative, qualitative, legislative)

Answer:

We would encourage the use of design features that are comparable to, and consistent with, existing taxonomies, such as the EU taxonomy, to streamline the reporting and analysis process for asset managers and to facilitate comparisons being made across different countries.

Question:

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

Answer:

We think it is important that different sustainability issues are considered holistically – for example, we would not want to see a climate solution that inadvertently has a negative biodiversity or social impact. A DNSH principle could help address this potential issue but could be difficult to measure in practice.

[Response continues on next page]

APPENDIX

Stakeholder information

Question:

In what capacity are you responding to this consultation?

Answer:

A representative body.

Question:

Please enter details of the business or body you represent

Answer:

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