

# EU Taxonomy Regulation

August 2023 (updated version)

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## Introduction

The Taxonomy Regulation<sup>1</sup> (the “Taxonomy”) defines a European Union (“EU”)-wide taxonomy, or classification system, of environmentally sustainable economic activities, covering six environmental objectives, with related technical screening criteria that draw on existing EU standards, labeling and certification regimes.<sup>2</sup> It also introduces disclosure requirements for (i) financial services firms in relation to activities of their investments that they term as environmentally sustainable and (ii) EU companies in relation to their own economic activities.

The Taxonomy (and associated technical screening criteria) initially focused on climate change issues, with the Taxonomy applying on 1 January 2022 in respect of the two climate change objectives and 1 January 2023 for the other four environmental objectives.

The importance of the Taxonomy to EU capital markets cannot be overstated. EU policy makers will use it as the basis for directing capital flows towards environmentally sustainable activities, including, in the fund management sphere, to encourage investment in financial products that meet EU-wide standards to invest in environmentally sustainable projects and companies. EU authorities will use it as a means to determine the environmentally linked risk of a particular asset.

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<sup>1</sup> Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088.

<sup>2</sup> Commission Delegated Regulation (EU) 2021/2139 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives (the “Climate Delegated Act”); as amended by Commission Delegated Regulation (EU) 2022/1214 which covers specific nuclear and gas energy activities in the list of economic activities covered by the taxonomy (the “Complementary Climate Delegated Act”). In addition, the EU Platform on Sustainable Finance has published a report with recommendations on technical screening criteria for the four remaining environmental objectives.

The Taxonomy helps define certain obligations under the Sustainable Finance Disclosures Regulation (the “SFDR”) and under the Non-Financial Reporting Directive (the “NFRD”), which will be replaced by the much more comprehensive Corporate Sustainability Reporting Directive (the “CSRD”), for reporting periods beginning on or from 1 January 2024. EU investors and companies may also use the Taxonomy on a voluntary basis. For investors, this could be as a due diligence tool for screening, identifying, and ongoing monitoring of sustainable investment opportunities with a positive environmental impact. For companies, the Taxonomy and particularly the associated technical screening criteria could inform their environmental and sustainability transition strategies and targets, as well as provide a basis for ongoing due diligence of environmental impacts caused by their activities, or the activities of other entities within their value chains.

The scope and application of reporting by EU companies under the Taxonomy will widen considerably over the next few years as the CSRD takes effect. We discuss this further below.

The Taxonomy is the first worldwide attempt to set out an exhaustive economy-wide definition of what it means for an activity to be environmentally sustainable. Whilst other countries (such as Canada, Japan and the UK) are following suit, the EU is the “first mover” in forming the basis of a new global language in the environmental sphere. Whether there will be mutual recognition of taxonomies between the European Union, the UK and other states is an open question.

For further commentary on EU ESG-related legislation, please see our [ESG Resources Centre](#).

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## Conditions for an Economic Activity to Be Environmentally Sustainable

The six environmental objectives specified in the Taxonomy are:

- **Climate change mitigation.** The Taxonomy describes climate change mitigation as an activity that addresses the source of climate change by reducing greenhouse gas emissions or increasing greenhouse gas removals, including through activities such as generating, transmitting, storing, distributing or using renewable energy; improving energy efficiency; and strengthening land “carbon sinks”, including through forestation. Climate change mitigation can either be a “transitional” or an “enabling” activity;

- **Climate change adaptation.** Climate change adaptation involves steps to substantially reduce the adverse impacts of climate change, such as wildfires, storms or droughts, of a particular activity. This includes making facilities more resilient to flooding and installing cooling measures in buildings;
- **Sustainable use and protection of water and marine resources;**
- **Transition to a circular economy** (including waste prevention and recycling);
- **Pollution prevention and control;** and
- **Protection of healthy ecosystems.**

The Taxonomy sets out the following three conditions for an economic activity to be considered “environmentally sustainable”:

- It makes a substantial contribution to one or more of the six environmental objectives specified in the Taxonomy, with the technical screening criteria defining what it means to substantially contribute to an objective;
- It does no significant harm to any of the other environmental objectives, again, as defined by the technical screening criteria; and
- It is carried out in compliance with minimum social safeguards. These social safeguards are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the eight fundamental International Labour Organisation conventions and the International Bill of Human Rights.

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## When Is Compliance with the Taxonomy Required?

The SFDR applies to “financial market participants” (incorporating a range of regulated EU firms, including alternative investment fund managers) that are responsible for promoting financial products with varying ESG characteristics. The SFDR and the Taxonomy ensure that investors investing in financial products in scope of the Taxonomy will obtain information about the Taxonomy alignment of their portfolios.

Where a “financial market participant”, such as an alternative investment fund manager (“AIFM”), makes available a product that promotes environmental characteristics (as an “Article 8” fund under the SFDR), it must state to what extent the investments will be

aligned with the Taxonomy. Likewise, where a financial market participant makes available a product with sustainable investment as its objective (as an “Article 9” fund under the SFDR) or with part of the investments expected to be sustainable (as a type of “Article 8” fund), it must include the information specified in the Taxonomy, and guidance by the European Commission (the “Commission”) indicates that it must take steps to obtain the information required to assess whether the investment is Taxonomy aligned. A recital to the Taxonomy makes it clear that investments aligned with the Taxonomy automatically qualify as sustainable investments under the SFDR. In addition, the Commission confirmed in June 2023 that investments aligned with the Taxonomy automatically fulfil the conditions required by sustainable investments under the SFDR.<sup>3</sup> These conditions are that the investment contributes to an environmental or social objective; the investment does not significantly harm any other of these social or environmental objectives; and the investee company follows good governance practices to do with management structures, employee relations, remuneration of staff and tax compliance.

The Taxonomy requires the financial market participant to disclose information on:

- the environmental objectives to which the investments underlying the financial product contribute; and
- how and to what extent the investments underlying the financial product are in economic activities that qualify as environmentally sustainable under the Taxonomy.

This requires assessing the alignment of the economic activities of the underlying portfolio with the Taxonomy’s technical screening criteria (see below in the section “What Steps Are Required to Assess Alignment?”).

Over time, Taxonomy compliant investments (or those that achieve a certain level of Taxonomy compliance) will be sought by investors with specific allocations for that purpose. EU authorities may incentivise, from a tax or regulatory perspective, investment in such products. At present, there is no minimum percentage for an Article 9 fund to be Taxonomy aligned. However, EU fund distributors are now required to ask about their clients’ “sustainability preferences” when distributing products, which means the client’s preference for a percentage of “environmentally sustainable” investments (which are investments aligned with the Taxonomy) or “sustainable investments” (which are “sustainable investments” as defined under the SFDR, which are investments in companies with inherent environmental or social benefits but not necessarily Taxonomy aligned). These checks principally cover distribution to retail

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<sup>3</sup> [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ%3AJOC\\_2023\\_211\\_R\\_0001](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ%3AJOC_2023_211_R_0001)

clients. The Commission has also proposed an “EU Ecolabel” for funds that would require a certain proportion of a fund’s investments to be in Taxonomy aligned activities.

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## What Steps Are Required to Assess Taxonomy Alignment?

Financial market participants which make available products under either Article 8 or Article 9 of the SFDR are required to check alignment of their portfolios with the Taxonomy at the initial investment stage and on an ongoing basis. The process is as follows:

- Identify the economic activities conducted by the company (e.g., power generation, energy intensive manufacturing or energy storage) that are capable of being aligned, as identified in the Taxonomy’s technical screening criteria.
- If any activities are in scope, break down those activities by turnover and, if relevant, capital expenditure and operating expenditure.
- For each potentially aligned activity, verify whether the company meets the relevant technical screening criteria: e.g., carbon emissions for electricity generation are less than 100 g CO<sub>2</sub>e/kWh.
- Verify that the “do no significant harm” criteria are met by the investee company.

The basis of these checks will either be the investee company’s own disclosures of alignment of its activities against the Taxonomy (if it is subject to sustainability reporting requirements, for example, under the NFRD or CSRD) or equivalent information obtained from the company or external data providers.

The Commission confirmed in a [Q&A](#) published in May 2022 that funds should only disclose information on Taxonomy alignment where they have reliable data, but it is not a prerequisite that the underlying investment itself is under an obligation to report Taxonomy aligned information for the fund to report on Taxonomy alignment of that investment. The Commission also stated in the Q&A that estimates of Taxonomy alignment (on the basis of information from other sources, such as proxies) “should only compensate for limited and specific parts of the desired data elements, and produce a prudent outcome” and “in exceptional cases and only for those economic activities for which complete, reliable and timely information could not be obtained, financial market participants are allowed to make complementary assessments and estimates on the basis of information from other sources. Assessments and estimates should only compensate for limited and specific parts of the desired data elements and produce a prudent

outcome. Financial market participants should clearly explain the basis for their conclusions as well as the reasons for having to make such complementary assessments and estimates for the purposes of disclosure to end investors.”

- Conduct due diligence to avoid any breach of the minimum social safeguards specified in the Taxonomy. This is discussed further below.
- Calculate the proportion of alignment of investments with the Taxonomy and prepare disclosures at the investment-fund level. For this purpose, firms will assess alignment in relation to their equity and debt investments in broadly the same way. The Taxonomy separately recognises the “EU Green Bond” standards (as discussed below), which are debt instruments used to finance Taxonomy compliant projects or economic activities.

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## Technical Screening Criteria

The Taxonomy technical screening criteria comprehensively defines environmentally sustainable economic activities (i.e. that contribute to the six environmental objectives). The criteria prioritise economic activities that make the most relevant contribution to the relevant objectives: for climate change objectives, either because they are most relevant to reducing greenhouse gas emissions or to improving resilience against a changing climate. These include activities in sectors with the highest contribution to CO<sub>2</sub> emissions (energy, manufacturing, transport and buildings) as well as activities that enable their transformation, such as renewable energy-related technology and energy storage. Low environmental footprint activities that do not make a substantial contribution to climate change mitigation or adaptation are not yet covered. The EU has stated that the technical screening criteria for climate change cover the economic activities of approximately 40% of listed companies in sectors that are responsible for almost 80% of direct greenhouse gas emissions in Europe.

Firms that assess the alignment of their investments as against the Taxonomy must map the activities carried on by their investments onto the relevant Nomenclature of Economic Activities (“NACE”), the statistical classification of economic activities in the EU, and then map the NACE code onto the relevant Taxonomy technical screening criteria. The reference to NACE sectors is only indicative—an economic activity could match an activity and the related technical screening criteria specified in the technical screening criteria even if the NACE sector of the company is not listed in the technical screening criteria.

Different types of assets will face different challenges with measuring and reporting on the Taxonomy technical screening criteria which define a “substantial contribution” to an environmental objective under the Taxonomy, such as a threshold of 100gCO<sub>2</sub>/kWh for electricity generation. In the case of EU green bonds, these thresholds are easier to apply where proceeds are directed to specific projects or activities and disclosed in accordance with the green bond principles (see the section “EU Green Bond Standard” below). The challenge is greater for other asset classes, including publicly listed and privately held securities, given the range of activities performed by the investee company and the varying levels of detail accessible on their activities.

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## Climate Change Mitigation—Transitional and Enabling Activities

For climate change mitigation, transitional activities are activities for which low-carbon alternatives are not yet available and that have greenhouse gas emission levels that correspond to the best performance in the sector or industry. Transitional activities comprise activities that are already low carbon (e.g., forestation or renewable energy) or activities that are energy intensive, are critical to the economy and should enhance their carbon reduction (such as cement manufacturing). Transitional activities make a substantial contribution based on their own performance, such as energy-efficient building renovation, energy-efficient manufacturing (e.g., best-in-class iron and steel manufacturing) and low-carbon energy production.

The Taxonomy specifically excludes power generation activities from solid fossil fuels (such as coal or lignite) but does not exclude oil- or gas-related economic activities.

Enabling activities directly enable other activities to make a substantial contribution to one or more of the climate change objectives. This includes manufacturing of renewable energy technologies, energy storage, information and communications technology for climate change mitigation and professional, scientific and technical activities for climate change adaptation.

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## Assessment of Taxonomy Alignment

When a fund assesses Taxonomy alignment, the value in the numerator (top part of the equation) is the value of the fund’s securities in those companies, weighted by the share of turnover, capital expenditure (capex) and operational expenditure (opex) in economic activities carried on by those companies that are aligned to the Taxonomy, including the value of investments in “Green Bonds” (see the section “EU Green Bond Standard” below). The value in the denominator (bottom part of the equation) is the total net

value of the fund's securities. The fund must choose one of turnover, capex or opex for the pre-contractual disclosure, with turnover the default choice, and capex or opex the choice if that is more representative. The reported Taxonomy alignment is calculated by all three indicators. A fund will count capex and opex when that relates to a project to achieve the climate thresholds for an economic activity contributing to climate change mitigation or adaptation and will count turnover when that is associated with climate change mitigation, but not adaptation, activities. This reflects the Commission's view that climate change "resilience" (adaptation) is "an ongoing process and not a fixed end-state".

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## External Assurance or Audit

For financial market participants performing the Taxonomy assessment, there is no explicit requirement for external assurance or audit. This is unlike the position for companies within scope of the CSRD, which requires companies that report, inter alia, on the Taxonomy alignment of their activities to obtain external "limited assurance" of the information, from existing auditors or newly authorised independent assurance service providers. In practice, where investors cannot rely on an investee company performing its own Taxonomy related audit of its activities, the investor will need technical assistance to apply the technical screening criteria and may well rely on a form of external assurance in this regard. The Commission has flagged the absence of any requirement for investors to seek external verification or assurance of their disclosures as an area for future review. In the meantime, investors will be mindful of their existing obligations for the accuracy and presentation of pre-contractual and periodic reporting when assessing Taxonomy alignment.

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## Ongoing Review of Taxonomy

The Taxonomy requires the Commission to review the technical screening criteria for transitional activities at least every three years and for other activities at least every five years. In the course of this review, it is possible that some activities that were previously considered Taxonomy aligned will cease to be eligible, although the Commission is mindful of the risk of creating inconsistent incentives for sustainable investing.



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## Do No Significant Harm Test

As mentioned above in “Conditions for an Investment to Be Environmentally Sustainable”, in addition to making a substantial contribution to one of the six specified objectives and complying with minimum social safeguards, an investment must “do no significant harm” to any of the other environmental objectives in the Taxonomy where there is a risk of such harm taking place. The technical screening criteria include the do no significant harm criteria for each activity, which, depending on the activity, are quantitative (such as a threshold for acceptable greenhouse gas emissions) and/or qualitative (such as a requirement for there to be an environmental impact assessment or waste management plan in place in relation to a particular project, to EU standards).

Companies in scope of CSRD will disclose the Taxonomy alignment of their activities within their sustainability reporting. Under the current disclosure standards, this will include reporting on the relevant do no significant harm criteria included in the technical screening criteria for each relevant activity.

Otherwise, investors will need to step in and assess compliance when investing or reporting on Taxonomy aligned activities conducted by those companies, requiring initial and ongoing due diligence. Due diligence will be based on the company’s own processes, factual analysis and, to some degree, information on “controversies” from databases and other external sources. In that regard, the ESAs stated in 2022 Q&A that “Data sets referred to as media-based “environmental controversies” are typically entity-level assessments of a company to a common environmental baseline. Whilst a useful input for investors when engaging with companies to dealing with reputational risk management, they are not suitable as a proxy to activity-based DNSH. Important metric-based thresholds and process-based requirements within the Climate Delegated Act are not considered in environmental controversies. Similarly, using only compliance with local environmental laws would not equal DNSH compliance. If a company operates in a jurisdiction with lower environmental standards or no environmental laws, then the company should not automatically pass DNSH tests.” Stakeholders have pointed out the current uncertainty as to whether activities of non-EU companies are capable of being qualified under the Taxonomy.

The requirement for investors to ensure that a business does no significant harm on a continuing basis raises questions as to the ability of an investor to control, and take a level of responsibility for, the activities of a company in its investment portfolio.

One issue that stakeholders have pointed out in relation to the do no significant harm tests is that the “process”-based requirements (such as having done a climate adaption

assessment) are suitable for companies raising finance before starting a project, but less easy to put in place for a company applying the rules to existing assets.

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## Minimum Social Safeguards

For an economic activity to be aligned to the Taxonomy, the activity must be carried out in alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the eight fundamental International Labour Organisation conventions and the International Bill of Human Rights. These standards are referred to as the “Minimum Safeguards”, defined in the Taxonomy as “procedures implemented by an undertaking to ensure the alignment” with the OECD Guidelines and the UN Guiding Principles.

The OECD Guidelines bring together various areas of business responsibility, including human rights and labour rights, as well as information disclosure, environment, bribery, consumer interests, science and technology, competition and taxation. The OECD Guidelines also recommend that enterprises apply good corporate governance practices drawn from the OECD Principles of Corporate Governance.

The Commission’s Platform on Sustainable Finance published in 2022 its Final Report on Minimum Safeguards under the Taxonomy. This sets out the checks for firms to determine, in line with the Taxonomy, whether their investee companies have in place “minimum safeguards” in relation to human rights, as well as other business practices.

Under the headings of human rights, corruption, taxation and fair competition, the Report recommends criteria for checking compliance with the Minimum Safeguards, with different scales of checks required, depending on whether the company is in scope of the CSRD or a small- to medium-sized enterprise (“SME”). The checks proposed are essentially:

- Whether the company has established adequate human rights due diligence processes, anti-corruption processes, tax risk management processes and promotion of employee awareness of the importance of competition law compliance. Investors may find some external data available for these checks, but will largely need to do their own assessments. As mentioned above, the report proposes checking human rights processes and measures by reference to the Reporting Standards being developed under the CSRD.
- Whether there is evidence that the company did not adequately implement human rights due diligence, through the company or senior management finally found to be

in breach of labour law or human rights, or through processes initiated by OECD “National Contact Points” or the Business and Human Rights Resource Centre. If a company has been found to have committed a human rights breach, it will need to show that it has provided remedies and made definite improvements in its processes.

Smaller companies are not considered compliant if the company has not established human rights due diligence proportionate to its size and risks, or if the company has been found in breach of human rights, labour rights or consumer rights.

The Commission gave guidance on Minimum Safeguards in a [notice](#) dated June 2023. This described Minimum Safeguards as “due diligence and remedy procedures implemented by a company... to ensure alignment with the OECD Guidelines and UN Guiding Principles” and that the key requirement is that “an undertaking must implement appropriate procedures, including procedures to continuously identify, prevent, mitigate or remediate the relevant actual and potential adverse impacts connected with their own operations, value chains and business relationships”. The guidance also notes that, where “an undertaking cannot address certain risks or eliminate certain negative impacts... this does not necessarily mean that the undertaking does not comply with the minimum safeguards, provided that the undertaking has clearly disclosed these potential impacts and explained what it did to identify, prevent, mitigate or remediate them and why it could not eliminate certain impacts.”

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## NFRD and CSRD —Application of Taxonomy Reporting to EU Companies

The Taxonomy requires companies that are in scope of the NFRD to disclose the proportion of their turnover derived from the sale of products or the provision of services associated with economic activities that qualify as environmentally sustainable and the proportion of their capital and operating expenditure relating to assets or processes associated with economic activities that qualify as environmentally sustainable. The companies in scope of the NFRD are large “public interest entities”, which comprise companies listed on an EU-regulated market with more than 500 employees, credit institutions, insurance undertakings and other companies designated by member states as public interest entities. Financial undertakings in scope of the NFRD, such as asset managers, will need to disclose the extent to which the economic activities in the companies that their funds invest in meet the EU Taxonomy criteria. The manner in which they disclose this information is governed by separate regulatory technical standards, covering the format of the information disclosed, the scope of

reporting for financial services firms, and the timing on disclosure of both Taxonomy eligible and Taxonomy aligned activities.<sup>4</sup>

The Commission has commented that turnover gives a clear picture of “where a company currently is relative to the Taxonomy” and includes, for instance, the turnover associated with an activity that meets an emissions threshold, whilst capex gives investors a sense of “the company’s direction of travel and strategy”, pointing out that revenue and capex information linked to the EU Taxonomy allows the translation of environmental performance (such as reduction in greenhouse gas emissions) into financial variables.

The Commission has pointed out that companies that are not in scope of NFRD may decide voluntarily to disclose their activities’ alignment with the Taxonomy, in part because it will help those companies obtain access to “green financing” opportunities.

Following the adoption of the CSRD, as the successor to the NFRD, the scope and application of Taxonomy reporting will widen considerably over the next few years. For financial years starting on or after 1 January 2025, “large” EU companies (that meet two of the following criteria: balance sheet greater than EUR 20 million, net turnover greater than EUR 40 million or more than 250 employees), including EU affiliates of non-EU companies, will be required to report on the alignment of their activities to the Taxonomy, and SMEs listed on EU regulated markets will be in scope for financial years starting on or after 1 January 2026. From 1 January 2028, non-European companies with significant EU operations or subsidiaries listed on an EU regulated market will also have to report under CSRD. Future reporting standards for non-European companies and SMEs listed on EU regulated markets will specify whether these entities will report on their Taxonomy alignment.

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## EU Green Bond Standard

As part of the Commission’s work on standards and labels for green financial products, the Commission’s Technical Expert Group on Sustainable Finance has been working on a green bond standard (the “Green Bond Standard”). This is a voluntary standard for issuers of privately issued and publicly listed securities, which will confirm that the proceeds from the bond issuance will be allocated to finance (or re-finance) projects and activities that are aligned with the Taxonomy. As well as upfront disclosure by the issuer on the use of the proceeds, there will be mandatory ongoing reporting by the issuer of allocation of the bonds proceeds in line with the Taxonomy, with verification by an

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external reviewer. The Technical Expert Group has recommended the establishment of an accreditation scheme for external verifiers for green bonds. Issuers will also be required to publish at least one impact report on the overall environmental impact of the bond.

The European Council and the European Parliament reached [provisional agreement](#) on the creation of the “Green Bond Standard” in February 2023. The provisional agreement states that 100% of proceeds from Green Bonds must be invested in economic activities aligned with the Taxonomy. As an exception, issuers of Green Bonds may allocate up to 15% of the proceeds of the Green Bond to economic activities that are covered by the Taxonomy, with the exception of the Technical Screening Criteria. This “flexibility pocket” will be reassessed as the EU’s progress towards climate neutrality advances and more green investment opportunities emerge. Once it has received confirmation from the Council and the European Parliament, the provisional agreement will come into force after 12 months.

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## Brown and Social Taxonomies

At present, the Taxonomy only covers environmental sustainability goals, whilst the sustainability indicators in the SFDR (and the definition of “sustainable investment” in the SFDR) cover both environmental and social goals. The Taxonomy flags the possibility of establishing a brown taxonomy (a taxonomy of environmentally harmful activities), a taxonomy of “low impact” environmentally sustainable activities and a social taxonomy, but does not commit itself to this project. To date, the Commission’s Platform on Sustainable Finance has published a final report on the Social Taxonomy, outlining its scope and material for the contribution (including a set of specific social objectives) and do no significant harm tests, but the progress of this project is unknown.

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## Enhancing the Usability of the Taxonomy Criteria

To assist companies in their implementation efforts, the Commission provides online tools and guides to aid users with the technical screening criteria, completing reporting templates, and support in understanding and applying the Taxonomy requirements. The following resources are available on the [EU Taxonomy Navigator Website](#) :

- The [EU Taxonomy Compass](#) is an online tool that allows users to search for economic activities covered by the technical screening criteria. It provides information on which activities are eligible, their contributions to the six

environmental objectives, and the criteria for Taxonomy alignment. The tool includes filtering options and hyperlinks to relevant EU regulations.

- The [EU Taxonomy Calculator](#) is an interactive tool that helps non-financial undertakings to determine their Taxonomy eligibility and alignment ratios, based on proportion of turnover, capital expenditure and operational expenditure.
- The [EU Taxonomy User Guide](#) offers a step-by-step approach for companies to assess their eligibility and alignment. It provides users with examples to illustrate this process.

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## UK Taxonomy

Following the UK's exit from the EU in 2020, the UK government retained an amended version of the Taxonomy in UK law (albeit without the accompanying technical screening criteria). It has indicated that it will repeal the Taxonomy by the end of 2023, using its powers under the Financial Services and Markets Act 2023.

To replace the Taxonomy, the UK government outlined its intention in a [policy document](#) (October 2021) to implement its own green taxonomy, assisted by the UK Green Technical Advisory Group (the "UK Taxonomy").

The UK Taxonomy will be published for consultation in due course.

In a recent [publication](#) (February 2023), the UK Green Technical Advisory Group recommended that the UK government adopt the same broad concepts, methodologies and metrics as the EU Taxonomy where possible (as summarized above in the section "Conditions for an Investment to Be Environmentally Sustainable"), adopting the majority of EU Taxonomy technical screening criteria and revising a small number which are inconsistent with the UK's net zero objective or where equivalent UK legislation is absent. In an additional [publication](#), the UK Green Technical Advisory Group also recommended that the UK government take a more flexible approach to the do no significant harm test compared to the EU's Taxonomy. This would require companies which conduct activities not fully aligned with the UK Taxonomy, but which nevertheless meet the "substantial contribution" test and some "do no significant harm" criteria, to report on the extent to which their activities are Taxonomy aligned.

The UK government has committed to working "with international partners to maximise interoperability and harmonization" between taxonomies, including the EU's

Taxonomy, and has committed to make the UK Taxonomy’s technical screening criteria as operable internationally as possible. However, there is no current mechanism for the EU to view the UK Taxonomy as “equivalent” to its own regime, meaning companies may have to disclose under both taxonomies. The UK has also announced its intention to include nuclear energy as an activity which can make a substantial contribution to the six environmental objectives, although this is subject to consultation.

In its [2023 Green Finance Strategy](#) (March 2023), the UK government announced that it intended to launch a consultation on the Taxonomy in autumn 2023. It is also considering whether to develop a separate “Transition Taxonomy”, or whether to include transitional activities within the UK Taxonomy. Once implemented, there will likely be a period of voluntary reporting for the first two years. The UK government has also indicated that it will develop proportionate proposals for the UK Taxonomy, to account for companies whose size or scale might make it difficult to disclose UK Taxonomy related information.

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