

Meeting minutes for the APPG on Environmental, Social and Governance

Topic: The UK Green Taxonomy

Date: Thursday 22 September at 10:30 (Hybrid)

The meeting starts at 10:30 am

Opening remarks

Good morning everyone. Welcome to this meeting of the All-Party Parliamentary Group for ESG. I'm Alexander Stafford, Chairman of the group. I'm afraid I can't be there with you in person, nor stay for the majority of the meeting, but the secretariat has very kindly volunteered to step in to help chair the meeting with the assistance of Baroness Northover.

I just want to begin by highlighting the upcoming APPG report on the UK Green Taxonomy scheduled to be published towards the end of this year. This is why this meeting and the participation of the Green Finance industry is so important. I think it's worth also mentioning the recent announcements of the legal proceedings filed against the European Commission which really importantly highlight the need for our own Green Taxonomy right now.

So I think our report ought to be very appropriate. For those that don't know, the BEIS Select Committee, that I sit on, is having a session in the next parliamentary week, three weeks from now, on ESG. The APPG has submitted a letter of evidence to the Select Committee to keep them updated with what we're doing.

Thank you also to everyone who's submitted material for the APPG's call for evidence.

I'm now going to hand you over to Ryan Jude, Programme Director for the Green Taxonomy at the Green Finance Institute, for a presentation. The Secretariat will be providing full minutes and details so that all members of the group are updated. Thank you very much indeed, and Ryan, over to you.

Presentation begins

RJ: I'm the Programme Director for the Green Taxonomy at the Green Finance Institute and will be giving a quick overview of GTAG's work. For those who aren't aware, GFI provides the Chair

and Secretariat function for the Green Technical Advisory Group, which is the group of independent experts that's been appointed to advise HM Treasury on the development and implementation of the UK Green Taxonomy.

We give independent, non-binding advice to the Treasury. As the Chairman pointed out, this is a really timely moment to have this discussion because of the legal action in the EU from yesterday. This shows that we do not just need to have a similar taxonomy in the UK, but I think it shows that we also need to get it right, which is incredibly important. I think it should be underlying everything that we're talking about today. It's not just a case of getting it out there, it's to make sure things are correct.

The Green Finance Institute is an independent organisation, backed by the Government, the City of London and various other foundations. Most of our work focuses on the development of new financial instruments to get capital into the green economy.

I also wanted to note that the agenda today mentions that this meeting is coming just as the Government is due to release the results of its consultation and GTAG will publish follow-up guidance. Obviously, the Government's timing has changed, so we currently don't know when the consultation is going to be published - that's obviously an important point to note.

GTAG has not been developing the actual consultation itself, rather that has been led by the Treasury. GTAG has been providing advice about usability, and insights about what we think the market needs. Hopefully, much of that advice has been considered. When it comes out, we will be publishing some of our advice publicly. Given we don't know the date of the consultation, we will hopefully be pressing forward with publishing advice later this year. When that comes out, we'll be sure to share it with all of you too.

GTAG was launched last summer by the Government to provide independent advice on the development and implementation of the UK Taxonomy. Its members consist of users of the Taxonomy, financial sector stakeholders, those from the non-financial sector, NGOs, and academics, and all provide different perspectives as to what the Taxonomy needs to be.

The UK onshored the EU's base taxonomy regulation before Brexit, but then did not onshore the delegated acts, which include the technical screening criteria, the TSC - the actual thresholds and the activities that go into it. While the Government has been reviewing the EU's, we've been advising how these should be reviewed. The second part of our advice was on the rationale for the implications of any deviations from the EU. Why would we deviate, how would that square with the whole international interoperability agenda - which is another key tenet of our advice.

Central to everything we've done is firstly, usability, and making sure that what we're developing works for the market. The market needs to be able to understand it and use it. Key to this is ensuring it is not overly burdensome. The Taxonomy is a tool, it's not *the* tool, and you get a lot of people who want the Taxonomy to be all things for all people. I think the EU has misstepped

slightly with some of the activities that it has included, and in the ways in which it's included them - but we shall discuss this later.

There are five key areas in which GTAG works:

1. The first pillar is UK-specific advice. This means that we first looked at the 'use cases' for the Taxonomy before anything else - we needed to know why we should develop this. What does the UK need it for? We concluded that the two main priorities are to direct capital into sustainable activities, the other is to avoid greenwashing. There are a lot of secondary activities as well, but those are the two main points and everything we discuss should bear those in mind.
 - a. The second point that we then advised on was on the approach to reviewing the TSC coming from the EU. We recommended a hierarchy when you were doing this:
 - i. The first thing is ensuring it is always science-based and aligned with the UK's transition pathways. For example, we have a very different energy sector to the EU, so certain things might have to be slightly different.
 - ii. The second thing was about usability. If you change something because it's science-based then we need to ensure it is also usable and understandable. This relates in particular, to, again, interoperability, where if you are going to change something it's preferable to at least keep the metrics the same. If you change a metric, you need a whole different data set underneath. This doubles the amount of work that businesses must do.
 - iii. The third part when reviewing the TSC, was to ensure it supported the UK to help support a global transition. We need to acknowledge that the City of London is international and invests across the world. It's not just the UK, so we need to be working out how we can also influence international capital and international businesses through this.
2. The second aspect we've looked at is usability and data. This has been mainly focused on do no significant harm (DNSH). This element has been challenging. There are lots of different DNSH criteria, but there's currently a binary nature of the DNSH where even if you significantly contribute to your activity, if you 'cannot prove that you meet one of the DNSH criteria, you cannot say your activities are taxonomy-aligned. We think this is an issue because 'you might end up penalising companies that are striving to show their DNSH or just 'cannot meet one because of a technicality: maybe the data doesn't exist, or they've not been able to do a certain due diligence report yet. We'll be providing advice on how we could fix this. FTSE Russell did some research that showed that in the FTSE Global All Cap index, about 5 to 6% could potentially be taxonomy aligned, it's currently eligible, but if you apply it against DNSH criteria, that plummets down to about 0.4%, 0.5%. That's obviously a big issue, so we've provided advice on how to streamline that, and again, we'll go into more details on that afterwards.

3. The third area of GTAG work is on policy links - where else could the Taxonomy support in the UK policy landscape? There are plenty of areas. We have not published work in this area yet, but some areas are, for example, the green gilts. We know that the green financing framework for them mentions that the investments should be aligned to the UK's Taxonomy. The Taxonomy can also be used as a screen for investments for the UK Infrastructure Bank. There are other areas this could then impact, for example when the bank talk to local authorities when they're looking at where they're going to be lending to. This would be a screen, it's not a "do you invest, or do you not invest.", it's just so they can track how much green capital is going into sustainable investments. Also, importantly we have done some work and provided some advice to the FCA on their labels and disclosures regime. Last November, the FCA published a discussion paper on this, which included how the Taxonomy could link into their labels and disclosures plans.
4. Fourth is a fully realised taxonomy. Part of this has been working with the Transition Plans Taskforce on how the Taxonomy can be linked in with transition plans. An example of this is using taxonomy data for transparency, for example, if I had a company and a transition plan, and it has revenues that are 5% aligned to the Taxonomy today, and in 10 years time it'd be 15% or 20%, then the market can decide how they interpret that. A good example of this is the rise of sustainability-linked loans in recent years, where you've got financing links of certain KPIs. If you don't meet that KPI, it can hit your interest rate - it goes up if you don't meet it, or maybe it decreases if you do. That could be some way you can crystallise the Taxonomy into financial decision-making.

We're currently doing work on exploring the need for a red/amber/green taxonomy and analysing how a red or amber taxonomy would function, and whether we need it in the UK. We had our first debate on this with GTAG earlier this month, but I still think it's an important conversation that we need to have.

5. The final point is on international interoperability. We started this workstream by first analysing the landscape, and we found that there were around 30 taxonomies across the world that have been developed by governments, private sector organisations, or third sector. This is obviously an issue, because if more countries keep developing them, and they keep diverging, how much burden can we place on businesses? We must first analyse the landscape, then look at lessons learned from some of them, and then provide advice on how to improve interoperability.

One of the main points is what we've been calling a hierarchy for taxonomy alignment. You start by having the same structure in your taxonomy. So we've onshored the EU's, so we have the same environmental objectives, then the same pillars as you go through – significant contribution, DNSH and minimum safeguards. Having those already achieves some semblance of base interoperability. You look then at China, Malaysia, and Singapore, where it's more principles-based, and you do not currently have that same base level of interoperability. So being able to compare those two types of

taxonomies is difficult. The international interoperability paper will be released later this year.

It's important to say that the EU has been seen as a leader to date. More and more taxonomies being developed now are using the EU as a starting point. Canada, South Africa, Colombia, Chile, I think Bangladesh and a few others, but obviously the UK as well. Importantly, the EU has recently had a lot of controversies, we can later touch on the legal cases being brought out, which means there is potentially a void to be filled to become that leader.

We think that if the UK can correct some of the issues seen in the EU, on science and on usability, then the UK could potentially become a leader, and this relates to the Government's objectives around green finance leadership.

Coming back to the hierarchy, we've got the environmental objectives, the three pillars, and then it comes to metrics and thresholds. Due to different transition pathways in different countries, maybe the threshold for an activity is different. But then if you come to the metric part, it might be that, for example, buildings in the EU use metrics but we don't use for buildings in the UK. So we will likely need to diverge there. But then we're one level less on interoperability than just changing the threshold but keeping the same metric. We would want to reduce the amount of times we need to do that.

Coming back to the international influencing point. If we're changing a metric from a country-specific metric, we then want to work with other countries to ensure that they are using this more internationally accepted metric.

Some of our key advice this year was about which for a can we use to promote the international interoperability advice - is it the IPSF, the G7, or the G20? We'd be interested in some thoughts here because that is work we're about to commence.

The main thing to note here is that getting the science right is the most important thing, then getting the usability right, and then the international interoperability right. There's obviously been a few months of delay on the UK Taxonomy, which is completely understandable given that priorities have shifted, but over that time we have continued to provide advice.

If we want to talk about efficiency in the consultation, there is a logic here where you could factor in some of GTAG's advice before the consultation comes out, rather than us waiting to publish our advice a month after it's out.

Discussion begins

SP: Thank you very much for your presentation. We'll now take contributions.

Contribution: In terms of SDR alignment versus taxonomy, what does that look like in the UK? Also, what are the ambitions and next steps in regard to what is coming for investors and corporations? My second question relates to financial markets' instruments and sustainability loans.

RJ: How taxonomy alignment can be reported for loan books in the UK is one of the next points we are looking at in the UK context, and currently developing. So thank you for this.

Contribution: On the EU Taxonomy side you have the EU GBS, the Green Bond Standard, which exists again, from my understanding the use of proceeds bond standard, not a sustainability-linked bond. But there's a clear differentiation here. So could you also quickly highlight the ambitions and the differences between the EU GBS versus the work in the UK? And also how and when and where does that incorporate the Loans Arena, not just the bonds arena? That would be very important.

RJ: So we haven't even started having a discussion yet about whether there will be a UK green bond standard underpinned by a Taxonomy, like in the EU. But as mentioned in my presentation, thinking about the Transition Plans Taskforce, this is where sustainability-linked loans and bonds could come in here. If you're developing KPIs and standards for the instrument, then it can be on anything that the company has said. So if I'm a company and I have committed to my transition plan framework, and in that there is future Taxonomy alignment, it is then up to lenders to decide how to treat this in a sustainability-linked instrument. In terms of SDR, there are really two parts to it. The BEIS side of it and then the FCA side of it. So the FCA is labels and disclosures. There'll be a consultation later this year.

Contribution: How do we get fair financing that reflects a just transition, not just for our emerging market companies? How do we keep within the Bank of England rules below? Is climate, your stress-testing, addressing potential capital considerations? How is that being passed into the funding rate? As a company, when we're having a conversation with financial institutions we're seeing ten alternating views, and we're trying to understand what is asked.

Moreover, we are in a time of high rates, and high inflation, and we need to talk about energy security. How would the Taxonomy adapt to current market conditions? What about capital consideration rules too? Should banks be forced to have capital ring-fencing rules or carbon-intensive assets? Isn't it better to deploy that capital, right to companies like ourselves?

RJ: That's very interesting, but I think we should take a step back to what the Taxonomy itself is. I'm always keen to stress that this is data, it is transparency. It's then using all the other tools to decide how you then use that data and transparency - your capital consideration rules point, for example. There was a report from the New Economics Foundation a few weeks ago outlining

that the Bank of England should use the Taxonomy as a screen for targeting cheaper funding. I can't really opine on where the taxonomy will end up being used, but what we could do first is make sure that the Taxonomy is green, is science-based, and that people understand it.

I touched on this earlier with what happened with the EU and gas. There's originally a base threshold for all energy generation which is an average carbon intensity of 100g of CO₂e per kilowatt-hour. If you're above that you're not green, if you're below that you're green. There's no penalisation there but you can class the activity as green if below. My big worry with the Taxonomy is that if we start confusing the green taxonomy with specific transition parts, we risk undermining what the Taxonomy is, which is to say what is green.

The markets can decide whether there should be green premiums. This is why the Taxonomy is very important because right now there is a lot of uncertainty as to what actually is green. Therefore, people are afraid to put an investment in with that discount because they don't necessarily know that it is green. Even with the existing voluntary standards, you don't yet know how they're going to line up to new thresholds in the future. I'm obviously not in banking now, but if I was, I would be worried about issuing something aligned with voluntary principles and risking it being greenwashing. These regulations coming out soon should give transparency, which is why we're keen to start publishing some of our work and insights, so people can see what we're thinking.

Contribution: That's the conduct risk element for the banks, but for us, it's the greenwashing and social-washing issue, because I don't want to be seen. We want to participate, but both sides of the equation need to be summed up. How do we use UK legislation to flex? This is an opportunity for the Government to really build the UK as a leader in sustainable finance. We're all happy to support it, but we feel that the EU Taxonomy is very rigid. Should the gas and coal examples be "shades of green"? I think this is the question.

Contribution: When you say science-based, has there been any clarification already of what is meant by that definition? We must start setting the basics of what is 'quantifiable' and differentiate it from what is 'qualified'. We can come up with all sorts of ideas of what science is, so I think such a Taxonomy would address what qualifies as scientific. Since we are seeing the huge privatisation of science, especially in tech companies, there exists an easy way to avoid this and claim this is science-based - but to what means and to what kind of end? Is there already something in place to define what we mean by 'science'? Second, we speak about data and there is no lack of data. Rather, we have too much data. So again, feeding this back to science - is this something we can qualify in order to feed the insurmountable amount of data we have into a science-based approach? Are there discussions occurring, or is this very much in its infancy?

RJ: In the UK, we're very lucky because we have the Committee on Climate Change. They are arm's length, they have published transition pathways. We have this to refer to in the UK. We can run scenarios past what they're putting into these transition plans and transition pathways, and it is worth saying that the CCC are part of GTAG. They are intrinsically linked in with what

we're doing. BEIS have been running an energy working group for the last two years too, and this includes scientists and academics. We (GFI) sit on it as observers. Many of us in GTAG aren't necessarily scientific experts, so it is useful to have these scientists and academics come in to determine what the thresholds for energy should be. There are other areas (buildings for example) that we think might need re-evaluating to be underpinned by science too.

So we need to maybe delay some of this and get experts into the room. Again, the most important thing for me on this is that the UK has committed to the consultation period to allow people to feed back into it. So when they publish it and publish the rationale behind thresholds, we expect everyone in the markets to say whether they agree or disagree. With the EU Taxonomy, people were given just two weeks to respond to the gas and nuclear elements which is not the best way to consult. When we talk about science-based, we are also talking about transparency and clarity in how you develop things. This is why with the date for the UK to introduce its Climate Change Mitigation TSC being the start of next year, the original consultation plan for March left ample time to get responses and factor them in. We're now quite near the end of the year. Could there be a need to maybe delay timelines a little bit here? If we're talking about transparency, then potentially. The key point is actually being able to consult and then allowing people to respond.

Contribution: Is the consultation still open to adding to? From a corporate perspective, if you want to maybe grow your non-financial services manufacturing, or attract manufacturing from emerging countries, would it consider the complexity? Are there any considerations to add some data points so elements above just energy and CO2 emissions?

RJ: Energy is just the easiest one to refer to. There are lots of other sectors in the taxonomy. There are also sectors that aren't yet included. And this is one that refers to our workstream that we call "expanding taxonomy coverage", which is part of workstream pillar 1 on UK-specific advice. If you copy and paste the EU taxonomy to the UK, you do not currently address all of the UK economy. The UK has committed to reviewing the Taxonomy every three years. The first one will be imperfect, but cover the highest emitting sectors, but then you can spend the next few years reviewing it, seeing what are the next priority areas. This is where interactions with corporations become absolutely key.

When the consultation comes out, please respond to it. Flag the areas that you think should be included. I agree, there is too much data, but the issue currently is how do you decipher it? A taxonomy will allow you to have thresholds in each of the sectors where you can determine the data that's most important to you – providing consistency and transparency.

Contribution: Given this discussion and the different stakeholders we have at the table, one thing missing in the broader value chain, especially for capital markets, is the engagement, for instance, with credit rating agencies. You see the lending institutions, I see that the agencies and the current structures, especially for financial and capital markets, but this has been traditionally overlooked in many of these discussions, especially around the EU's work to look at the corporate and investment implications, potentially data providers now with the ESMA

Sustainable Finance Roadmap looking at transparency around ESG ratings. I think we probably do not want to go down that same rabbit hole, involve them too late, but early on in the engagement process, because that is ultimately where the different parties align and intersect, and ultimately where capital flows are being determined.

Contribution: Just building on that, remember what happened in 2008 and with credit ratings - wasn't trading better then? We relied so much on credit ratings, now we're going to rely on ESG ratings.

Contribution: A topic that I've mentioned in previous APPG meetings is around trusting the data. I think it touches on creating clarification around the definition of the science, as we've just discussed, of what ESG is, and how the Green Taxonomy can translate across different boundaries geographically. So I would like to know whether in a world of green taxonomy we will be beset with greenwashing and companies exaggerating their environmental claims. How do we avoid the reliance on opaque and contradictory KPIs, especially with the data being as large as it could potentially be?

RJ: Hopefully no, because we're currently in the development phase. We have the opportunity now to develop it in a way that means we can avoid having the greenwashing issues by engaging with the market and the consultation that's coming up. We want to make this taxonomy as accessible, as usable, and as understandable as possible. This is why the gas issue is controversial for me, because if an investor who doesn't know what is inside two companies is looking at one of them and comparing the one that invests only in gas and one that invests in genuinely really green things - if I can't see that detail, all I can see is that both of them are green taxonomy aligned? That's where you start to get greenwashing because one of those in my opinion is not the same as the other.

While we are in this design phase right now, we can stamp these things out. That's why this legal case has been launched this week by NGOs in the EU. It's specifically around this sort of thing that political interference has led to certain things getting in there, which has led to greenwashing which undermines the entire endeavour. It's a shame because the only reason that we're sitting here right now talking about the UK Taxonomy is because of the work that went on in the EU over many, many years, that the UK was involved in. To answer your question, we definitely want to avoid greenwashing and that's what we need to do in this development phase and get it right *now*. Otherwise, we're getting to a situation like in the EU where they've potentially rushed through something towards the end, which now undermines years of work that they've done, and their advisers are recommending fixing issues after it is already published.

Contribution: Would that rely on a level of the regulatory framework that helps to police that, do you think?

RJ: In the Greening Finance Roadmap published last October or November, it stresses that under the SDR, green taxonomy reporting will be part of that for companies over a certain size.

This is also where the FCA's listing rules will be being updated as well - it's up to public companies to report to the Taxonomy as well.

Contribution: It actually might not be a negative thing to use certain regulatory pointers because if we are having the ARGA and the audit, and if it's left up to the market as Kwasi Kwarteng proposed, I think we will have the issue again that the rating agents listings might actually double down and be even stricter, in order to avoid these claims of greenwashing. So to have a clear proposition, and maybe a gradation having a list of elements and a minimum, because certain industries and sectors simply won't be able to follow and qualify, so to have maybe a minimum and then not an exhaustive maximum, and this minimum is clearly regulated because otherwise those corporates might have those issues. Then there is some leeway for greenwashing again.

RJ: I think the regulation side is really important. I'm really looking forward to seeing what BEIS ends up saying about this going forward. It's not so much a risk, but it's risky. It's not optimal, but there could be a situation where the Taxonomy exists, and it's floating around in the ether, and there's no regulatory underpinnings to make companies report against it. I think that it then undermines the effectiveness. You might get voluntary principles that start using the Taxonomy as their thresholds, and they use that to update their principles, but until you have the regulatory side of things, and how companies can report, the effectiveness is reduced.

Contribution: Will that be communicated clearly and taken into account considering the economic and political situation that UK is in at the moment, and the enormous pressure we have in terms of energy scarcity, the war in Ukraine, the UK's looming 'mini budget'? I think there might be other enormous pressures that could actually become a hindrance towards something like this going through, because the political situation is so precarious.

RJ: As an independent group of advisers, you're voicing my current worries at these concerns. There's a lot going on at the minute to ensure that this stays on the agenda, and there are things that we are doing with GTAG. That's why meetings like this today, reports like those the APPG are doing are important in showing why this needs to stay on the agenda.

Contribution: A good example is Jaguar Land Rover. Its supply chain companies, which are SME businesses, are complaining that they are being refused credit because they are not publishing their ESG criteria. I'm sure there's a whole bunch of other companies in the supply chain of the UK. So what is the criteria and how should we roll out the Taxonomy so it is fair? We've currently got high rates, we've got inflation, and a recessionary environment is possible.

Contribution: We would strongly encourage aligning with the EU, because it's costly. Additional costs will be passed onto customers in order to do disclosure. If we have to do that twice over then it's an unnecessary set of costs. There's no linkage with the DWP alignment metrics, so all UK pension schemes with more than 1bn assets next year will have to publish their alignment metrics. It is unclear how that's going to align with the Taxonomy and I think that's a real shame. There's also no alignment with stewardship. In our worldview, ESG integration is an activity that

has no real-world benefit, it is a risk management technique to incorporate transition activities and how we understand portfolio value. Stewardship, we think, is impactful and we want the Taxonomy to be incorporated in that.

So the disclosure tools are a common starting point between parts of the intermediation chain, and that is it. It's become a label and has become a fiscal tool, it's become a lending tool. It's simply to anchor conversations. We have an investment with a portfolio of companies that we invest in that are deliberately high carbon that we think over the next 10 years will decarbonise because we think that they'll do well with the EU's 'Fit for 55' Strategy. So if it's 100 grams of CO2 for your energy threshold, then we are intensely comfortable investing in 150 grams of CO2 knowing that there's a proper transition plan in place. That's where we can add our market expertise.

RJ: Yes, whenever I stress that it's **a** tool not *the* tool that is what I am trying to stress. It is good to have that conversation. It's not saying invest here, invest there, it's giving information to investors to then make a decision. If you think that it's useful as it gives you an idea of where you want your company to get to, then that's brilliant. In regard to the coverage of the economy, this was deemed acceptable in the initial development because it looks at the highest emitting sectors first. In the EU, around 90-95% of carbon emissions are captured in the sectors included in the EU Taxonomy. The reason that I stressed the per cent coverage is because the FCA discussion paper last November originally was talking about label funds being linked to a taxonomy alignment. If you're not covering the whole economy, you can't really do that. So that's why, again, it links back to a misunderstanding. It's become a label and it shouldn't be. It should be underneath the label as data and information for people to interpret as they wish.

We did a market survey last year where a lot of people were saying similar sorts of things about costs. This is why the hierarchy that I stressed earlier is important. In an ideal world, every threshold, every metric, and every activity is exactly the same. We know that different parts of the world have different transitions - we're talking about the UK, and the EU, but if you look at India, this is a very different story. That's where if you have to change the threshold, that's fine, as long as it's the same metrics. The metrics mean the data underneath is the same and a company or assets report can use the same data set. But for the EU alignment on energy, it's 100 grams as you say, and for the UK it might be the same. But if it changed, they're still using the same data set, so it makes life a lot easier. As you start changing the datasets and the metric used, that's when the cost starts to spiral and that's a really big issue. On international interoperability, it's not just saying in the UK that this hierarchy is great, it's about speaking to other countries that are in an earlier stage. America is probably not going to have a taxonomy, but there are lots of other countries looking at them at the minute that we need to keep engaging with.

On DWP alignments and stewardship, it might not currently align, but this is mainly because we're a few steps further back. We need to get the Taxonomy developed, but keep having these discussions. SDR is supposed to get TCFD and the Green Taxonomy joined up under one

regulation, but as I've said it is a bit more delayed. I don't know what the timeline is on it - and we're not advising directly on it.

Contribution: I'd like to return to the subject of gas. If we try to be charitable with the way the EU has gone about it, as I understand it, it's framed as a transitional energy, and there's timelines and so forth. If we widen the scope and consider other sources of energy which might not meet green thresholds, but are transitional (good examples include hydrogen) and will go from blue to green, then there's a transition there towards net zero that doesn't begin with carbon neutrality. What's the scope for that energy and others? There's obviously also nuclear. But the other worry I have with that is that obviously you're broadening the Taxonomy and asking for more data - You're making it more complex for stakeholders. If we did have a wider transitional scope, where's the cut-off point in terms of data and reporting?

RJ: Nuclear, we expect will be in the consultation – as this was announced by then-Prime Minister Boris Johnson. If you look at the significant contribution thresholds, nuclear is under that 100 grams, but there are potential issues with DNSH. I think the important thing here is consulting and what the market says about it, so if you feel particularly strongly about nuclear energy, that's your opportunity to send your comments on it. I have personal views, but we have to remain impartial on how we're doing it. On the likes of hydrogen, if we go back to that 100 grams of CO2 equivalent per kilowatt-hour, if you are gas with over 90% CCUS effectiveness that could potentially fall under the threshold. So under the current thresholds that could be able to pass the screen. You may be able to get in that way. I don't think there should be a limit on the sectors that can be included, so long as sits underneath the thresholds. But gas with 90% CCUS capture is currently unlikely at scale. I don't know the numbers behind blue hydrogen off the top of my head. Green hydrogen - there's already criteria in the EU about the equipment used to produce green hydrogen, not necessarily hydrogen itself. I think it should be considered in the UK Taxonomy.

Contribution: Yes, it's a good case study. But getting FDI into the UK from an emerging market country, you have the example of British Steel, bailed out by overseas investment to the tune of £3bn. At a plant like Newport supporting 8,000 jobs, 10 000 in the supply chain. A £3bn investment is needed to decarbonise the plant. How can we use principles like the Taxonomy to support that? And at the same time, going back to sustainable finance, TATA chemicals has invested in the UK's first CCUS (U for utilisation). So we're bringing the emissions down on one side, while supporting the economy, but emissions are high from TATA Steel. How do we balance that? And when we come from a finance perspective, how do we bring in the Taxonomy? How do you navigate these complexities?

RJ: When you're reporting against a taxonomy, it's revenue alignment, but also CAPEX alignment, the latter is one way you can bring about the transition. An example, is green hydrogen, for which, admittedly, the business model is not quite there yet; if you were investing billions in green hydrogen, it could be taxonomy aligned, regardless of whatever else is

happening in your other investments. That CAPEX distinction is very important and worth remembering when talking about a transition.

Contribution: I would like to understand the broader debate. I think what's more pertinent will be when SDR comes in, and how to get retail investors to understand different terminology and wording that is used by professionals on a daily basis. That means nothing to the average investor.

Chair welcomes the contribution to help simplify a complex subject.

RJ: I spoke to one of your colleagues a couple of years ago, looking at potential Green ISA labels, and I remember we discussed that there was maybe no point in determining what is green until the Green Taxonomy is released. And now a year later, here we are, doing what we do now. The FCA's consultation I referenced earlier, that was due over the summer, I think it is expected October or November now. It is very important to feed into when we're talking about what retail investors are seeing. This is important to what I was saying earlier, about decoupling taxonomy alignment from the labels given to funds because that muddies the water. You'll be familiar with the five different labels that they might apply to products, as outlined in the FCA discussion paper, and that's what a retail investor looks at in the first instance. Then there should be another layer of information underneath it, in our opinion, on the data points being "taxonomy eligibility" and "taxonomy alignment." Different tools for different solutions. The Taxonomy brings about data transparency, it's then up to regulators and/or the government on how you use that in order for it to be effective in the real economy. I think the FCA labels and disclosures regime is going to be a very big part of that.

Contribution: There are two initiatives, citizen-led. In Germany, one has been published by two students and backed by over a hundred scientists and translated into several languages. And in France, there is another citizen-led initiative, they do workshops, two or three-hour workshops. Called "la fresque du climat," the climate fresco, where all these difficult terminologies or even forms of energy sources are explained. Over 1 million people have taken part, which is more grassroots level.

Contribution: We're a defence contractor, working for governments, their considerations are going to be more unique and niche which is why I'm not putting my hand up, having a self-centred hat on. I'm particularly interested in how it affects our supply chain.

Contribution: Can I pick up a comment, that the Taxonomy I think needs to be put into the context of the other disclosure obligations investors have. We're all now preparing TCFD reports, which is a very simplistic set of emissions metrics, scope 1 and scope 2 emissions across hundreds of economies in our portfolio. The most cost-effective and least disruptive approach is through scope 1 and scope 2 emissions numbers in order to decarbonise, is to essentially just slightly tilt towards developed markets and away from emerging markets. Even within those portfolios, slightly tilt away from steel and slightly tilt towards pharmaceuticals, and nothing changes in the real world. We can do that with very little tracking error.

Markets are at four degrees. There's a market value here, and we've got two million UK savers who are currently investing in a market that is inconsistent with science. Policymakers need to step in, and transparency is the first way to do that.

Contribution: And alignment of the tools. I would love to hear more about the alignment of the international platform, with the international platform, or through the international platform sustainable finance. And potentially leverage points at the very high political agenda level. We need to look at this from a multidimensional perspective. We've got the policy implications, the regulatory implications, and the market implications. Within the market, you've got the various levers and drivers, corporates, investors, rating agencies. Thinking through this entire value chain, and understanding what are the implications at each level, I haven't seen these discussions anywhere else in the past.

Contribution: Thank you. I'm very stressed about what has been said about working with the EU. The fact that we were able to maximise our impact through the EU prior to Brexit. We've seen that in other fields as well. I think that given how volatile people's attitudes to the EU can be, I think it is important about maximising UK influence by working with the EU as opposed to arguing the case that we must go in alone to maximise UK influence. You can see the pressures on other countries too. I hear what's said about the enormous difficulty in getting this right, and trying to make it effective. We need to remember we need to address the climate crisis, there is also enormous political instability which will be promoted by climate change if we don't address this. That is going to become a major political pressure. I wanted to ask then, will Graham Stuart be the one who will be looking after this, or will it be a minister within BEIS? It would be pretty significant if it wasn't Graham Stuart.

RJ: It's a Treasury-led consultation, so it was John Glen, and now it will be Andrew Griffith. When I said it was Treasury-led consultation, individual sectors and thresholds are handled by different departments. And we're working with DEFRA on some of the agriculture, adaptation, fisheries criteria, but then it's the Treasury that stitches it all together.

You raise a very important point, we spend so much time in the weeds, the thresholds, the criteria, that we forget about the big picture: the fundamental political instability that is going to be caused by climate change. That is why we always refer to our north star being ensuring it is science-based.

When we talk about the UK versus the EU, the second mover advantage is helpful. We have the Committee on Climate Change who provide independent advice which we can use as that science-based indicator.

We also don't have 27 member states who are lobbying from positions of having completely different energy mixes.

Although the UK can only regulate what happens in the UK, because so many investors are global, the Taxonomy needs to take that into consideration and provide clarity for everybody.

Chair asks RJ to reply to a contribution

Contribution: We need to build on alignment and not competition because that will decide the success of this project but also for ESG.

RJ: I agree, we need to promote recommendations for countries who are either developing a green taxonomy or already have one. We need to identify the best international platforms to promote these recommendations as well. We don't want to create more burden for businesses with many different taxonomies from across the world.

Contribution: If you are investing in companies which are carbon intensive but with a view to mitigate that climate issue we're facing, are you going to be penalised under Green Taxonomy?

Contribution: Not under the current understanding of how it would be applied because of the disclosure mechanism. The Taxonomy is by revenue rather than at company level. Currently, the ESG architecture doesn't tell me much, but I'll now be able to see how much CAPEX and how much revenue is coming from the activity which is consistent with a performance threshold. The Taxonomy will allow me to know which companies are on the right trajectory and OK to invest in.

Contribution: I think it is a very important point when building upon the EU's Taxonomy. If there is too much compromise on the E, and you are already world leaders on the S and the G, I think it could lead to unrest.

RJ: The Taxonomy is just saying what is green and what is not. It allows you to make the decisions, but there are other priorities that exist. Right now, the priority is solving the cost of living crisis. There are certain aspects of that which would fall into green activities.

Some companies may invest in companies that are currently polluting, but with the intention that through their financing that will come down. And that's where this sort of transparency is so important.

Contribution: I think you're right, though, it is all about that engagement and that stewardship piece. I think most, not just sophisticated investors, understand that if they're not doing it, someone else will, so it's better to have a handle and a steer, to make sure that this stuff that isn't as great at the moment is going on the right trajectory.

Contribution: That's really hard in the current NGO environment we find ourselves in, campaigning on very simplistic decarbonising metrics. We simply can't compete from a comms perspective with that kind of profile.

RJ: That's why we think NGO engagement is so important from the start. All NGOs in the EU have walked out of their advisory role on the EU Taxonomy as they have felt ignored by the EU. We have NGOs who sit on GTAG to ensure they are happy with the things that are going out, and we consult other NGOs via these two.

Chair asks Baroness Northover for closing words

Contribution: Thank you very much. I think you've summed it up extremely well. It's been fascinating, and incredibly helpful to have everybody's participation whether it's from financial institutions or whether it's from business, whether it's from the NGOs, tech sector, right across, and it's fantastic. It's very, very important work. And if we are going to avoid the greenwashing that Richard referred to earlier, it's obviously vital to try to get this right. I am very encouraged that this is being taken forward, despite the current immediate pressures that people have referred to. I thought it was really striking in Glasgow to see the involvement of the financial sector because their involvement and their recognition was not only the right thing to do, but actually, it was in their economic interest to be looking at this. From their field, some crisis would occur just like it did in relation to the Uyghurs and what we've heard about Marks and Spencers and its supply chain. That can destroy a company's reputation. Therefore, addressing this is vital. Clearly, industry and finance were recognising this.

I think that what we've heard about what the UK is currently taking forward is very encouraging. We have to try to make sure that we are engaged globally so that there are fewer, rather than many systems that people are trying to answer to.

However, that shouldn't take away from the need to reorganise and reorient, the way that business is positioning itself, and seeing where the future lies and where they've got to head. That's what this is all about.

So these conversations I find incredibly helpful. I'm on the Select Committee on Environment and Climate Change in the Lords. I'm a Liberal Democrat, I'm not part of the Government. So I can't answer how the Government is going to deal with the immediate crisis of this winter. I am very encouraged to see all of your engagement in this very vital area. So thank you very much for coming along.

The Secretariat thanks Ryan Jude, Alexander Stafford, everybody who joined online, and those who travelled to participate in the discussion.

Secretariat: I just wanted to point out that this meeting is the foundation of our report on Green Taxonomy, which will be exploring everything that was said today and making recommendations to the Government and other key stakeholders. So we'll be circulating an email afterwards. We'll put in a request for feedback to us of some of the things that you've said today. Any insight is very warmly appreciated, of course, but recommendations are the thing I'd be very appreciative of indeed.