6 February, 2025

Japanese Bankers Association

JBA comments on the UK Green Taxonomy Consultation

Overview of the comments

We believe that taxonomy is classification tool that enhances clarity and transparency of the sustainable finance. To meet the objectives of mitigating greenwashing and channelling capital, taxonomy should be accompanied by other the sustainable finance framework and incentives. If a UK taxonomy is going to positively impact the flows of transition finance, it is important that it takes into account different 'shades of green' in line with the transition plans. Additionally, interoperability with other taxonomies, including the EU Taxonomy, is crucial to ensure a shared understanding globally. However, some design issues seen in EU Taxonomy are recommended to be avoided, such as Green Asset Ratio (GAR), which does not provide a detailed view of banks' portfolios.

#	Question	Comments
	Purpose of the consultation	
	The primary purpose of this consultation is to establish whether a UK Taxonomy would be additional and complementary to existing policies in meeting the objectives of mitigating greenwashing and channelling capital in support of the government's sustainability objectives. To inform this, the consultation seeks to gather views on any market and regulatory use cases for a UK Taxonomy which would contribute to these objectives. In addition to developing a clear understanding of the use cases, the government is also seeking feedback on how to maximise the usability of a UK Taxonomy, should respondents support taking one forward. This includes considering key design features that will impact the overall usability of a UK Taxonomy. However, it is not in the scope of this consultation to seek detailed feedback on specific activity-level standards. In addition, it is not in the scope of this consultation to seek feedback on wider UK climate and environmental strategies, beyond sustainable finance.	
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?	・ First and foremost, we consider that a taxonomy is a classification tool. A taxonomy is not a policy lever to channel green investment and should be used along with other important pillars of the sustainable finance framework, particularly reporting and disclosure, and transition plan requirements. ・ It is important that the government's goals are clearly defined with incremental milestones and that these are reflected in how progress against the taxonomy is evaluated; the design and goals of the taxonomy should be consistent with this.

#	Question	Comments
		・ To prevent greenwashing, it is effective to clarify the scope of "green" using a taxonomy like the EU Taxonomy, and to distinguish it from transition activities. In other words, if the UK Taxonomy is developed as a tool to mobilise finance for transitions, it may not be very effective in deterring the original purpose of greenwashing, which is to make non-green businesses appear green. Additionally, it must be ensured that "transition" is not misunderstood as being included in "green." ・ Furthermore, a taxonomy can effectively help reducing greenwashing risk, only if it is widely adopted and interoperable with other taxonomies already in use globally; this will ensure a level-playing field between global banks. This will also help ensure the taxonomy works alongside existing industry standards and ESG ratings providers.
2	Are there other existing or alternative government policies which would better meet these objectives or the needs of stakeholders?	・ The UK Government is currently in the process of consulting on the adoption of the ISSB reporting standards, regulation of ESG ratings providers and the introduction of mandatory transition plans for listed companies. In our view, these policies are more effective in channelling capital towards the government's sustainability objectives and providing clear information to the market. Equal priority with a UK taxonomy should be given to these policies. ・ Apart from rulemaking, public sector support towards transition finance would also be helpful. When the technology has not yet been sufficiently established, difficulties remain significant from a cost and risk perspective. Public sector investing in the subordinated portion utilising GBE or other public institutions, or having concessional equity or guarantees to attract private investment (e.g., Blended Finance) along the pathways indicated by the TPT will be an effective measure. Tax incentives and subsidies are also considered effective.
4	How could the success of a UK Taxonomy be evaluated? What measurable key performance indicators could show that a UK Taxonomy is achieving its goals?	・ The success of a UK Taxonomy could be measured by its usability. ・ It can be considered a success if companies could appropriately respond to disclosure requirements by utilising it and reduce the additional burden of disclosures under existing standards (e.g., data collection by companies). ・ We would not support the introduction of a singular metric similar to the EU's Green Asset Ratio (GAR). A standalone GAR does not provide a very detailed view of a banks' portfolio and experience from the EU suggests that it may depress activities that can be beneficial to the energy transition. The success of a taxonomy cannot be judged separately to the success of other key policy levers in mobilising capital to support sustainability

#	Question	Comments
		objectives. ・ For taxonomy alignment reporting, we would recommend that this is more detailed and allows banks to report on different segments of their portfolio and different levels of alignments - this will allow for a more nuanced view of a bank's activities, taking into account transition finance. This will give investors a more incremental view of progress towards full taxonomy alignment. ・ For indicators of success, the amount of private capital mobilised by GBE, or if adopted as a government endorsed but voluntary taxonomy, the rate of adoption could be monitored as an indicator.
	Use cases	
	As noted, the government is keen to explore whether there are specific use cases for a UK Taxonomy which support sustainable growth by contributing to the following goals: Promoting market integrity and preventing greenwashing; Mobilising capital into sectors critical for the transition. The work of the Green Technical Advisory Group (GTAG), and feedback from other taxonomies in operation, suggests there are several potential use cases. These range from very focused uses, such as providing a tool for appraising green bonds, or broader applications such as supporting investor decision making. Some possible examples include: Acting as an input to project and business finance decision, providing consistent standards to allow meaningful comparisons over time; Supporting investor stewardship and engagement; Informing the development of sustainability-focused financial products; Application to investment fund and investment portfolio product disclosures; Use as part of the government's wider climate and environment strategy. The government welcomes views from respondents on the balance of costs and benefits across the above use cases, in addition to views on other use cases not covered here.	
5	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	・ Where used alongside a robust reporting framework and transition plan guidance, a taxonomy can provide greater clarity and standardisation across the financial sector in the treatment of certain assets. However, in order to effectively mobilise capital, the taxonomy would need to be accompanied by positive incentives to

#	Question	Comments
	through links to government policy and regulation.	prompt market activities to move to sectors defined as green. We would recommend that this is considered as part of a separate consultation on industrial strategies and should not be embedded into the taxonomy itself. ・ For example, when GBE selecting investment targets (effective for transition) or granting incentives (such as tax breaks or subsidies), a UK Taxonomy can be used for selection.
7	What are respondents' views on the benefits of the proposed use cases?	・ It improves the basis and transparency for selecting investment targets (entities) and activities.
8	Are there any other use cases respondents have identified?	・ Utilising the taxonomy for data collection and classification related to ISSB disclosures. ・ Ensuring interoperability when selecting investment targets or activities outside the UK.
9	How does each use case identified link to the stated goals?	・ Enhancing clarity and reducing the burden for private financial institutions (such as investment funds) in selecting investment targets and activities can help attract capital.
10	Under these or other use cases, which types of organisations could benefit from a UK taxonomy?	・ Financial institutions, companies with transition technologies, data providers, IoT-related companies involved in data collection and processing, and rating agencies.
11	For each use case identified, do respondents have any concerns or views on the practical challenges?	・ For UK companies conducting international business and global companies doing business in the UK (including financial institutions), it is important to avoid increasing the burden of disclosure based on the UK Taxonomy in addition to disclosures based on the EU Taxonomy in Europe and other jurisdiction's standards.
12	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 should be responsible for ongoing maintenance of the taxonomy as well as evaluating its effectiveness according to pre-determined criteria, due to the need for continuous review of its validity (threshold settings, technologies covered, etc.) and alignment with taxonomies and disclosure regulations in other jurisdictions. ・ Like the development of other aspects of the sustainable finance framework, it will be important for a broad range of stakeholders to ensure that the criteria for the green taxonomy is evidence-based.
	Transition Finance	
	The government is seeking views on whether a UK Taxonomy is a suitable tool for supporting the mobilisation of transition finance, including financing for activities that enable other sustainable activities. Supporting companies to transition is vital to facilitating growth and reducing emissions. The UK has taken a leading position on this through the work of the TPT and the recently published Transition Finance Market Review (TFMR) .	

#	Question	Comments
	The TFMR sets out the importance of considering how transition finance would require special treatment within a UK Taxonomy. In some cases, the binary categorisation of activities can fail to properly account for the nuance of the differing transition pathway within firms. Some established taxonomies have looked to address this challenge by building in transitional activities. For example, Singapore has developed a 'traffic light' approach to categorising activities within their taxonomy, whilst the EU has included some transition activities using thresholds that may be updated over time. It may also be possible for firms and investors to assess capital expenditure against a taxonomy as an indication of transition, or to use a taxonomy as an input to transition plans, but this needs further consideration. The government is seeking feedback on the value of these different approaches.	
13	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.	・ For a UK taxonomy to positively impact the flows of transition finance, it is important that it takes into account different 'shades of green'. It should allow for banks to report on the percentage of their portfolio that has different levels of alignment with the green taxonomy. This enables to better reflect transition financing and provide more detailed information to the market. ・ A UK Taxonomy that is more aligned with transition plans is expected to accelerate the inflow of funds and increase the allocation to transition finance projects and technologies. ・ It is important to ensure that the timeline for the phased adoption of new technologies in transition plans and the threshold values defined by the taxonomy do not conflict (e.g. when there is high uncertainty in the timeline outlook, the threshold for the technology may be too strict and unrealistic, or even though there is already a market outlook for alternative technologies, the threshold criteria may be too lenient, hindering the progress of alternatives). ・ Additionally, to prevent greenwashing, it is advisable to design the system in a way that requires third-party verification (second-party opinion).
	Taxonomy design questions: International interoperability	
	The government considers international interoperability to be a particularly important factor in any future development of a usable UK Taxonomy. Taxonomies are location specific due to the varying make up of local economies and the different transition pathways between jurisdictions. This makes interoperability challenging. However, ensuring alignment with well-established and common design features across other taxonomies could create an opportunity for a UK Taxonomy to be more useful by facilitating more efficient data comparisons. These common design features, as recommended by the GTAG, include: 1. Concepts and methodologies: using a recognised taxonomy format and targeted coverage.	

#	Question	Comments
	For example, using an established structure of objectives, economic activities in scope, substantial contribution criteria, and a mechanism to ensure that an activity contributing to one environmental objective does not cause significant harm to other environmental objectives. 2. Metrics and thresholds: using quantified thresholds and recognised, science-based metrics where possible in criteria. This could include using well known standardised metrics (e.g. emissions thresholds) as well as the same or similar activity names and descriptions and Standard Industry Classification (SIC) codes.	
14	There are already several sustainable taxonomies in operation in other jurisdictions that UK based companies may interact with. How do respondents currently use different taxonomies (both jurisdictional and internal/market-led) to inform decision making?	・ In business operations within each jurisdiction (e.g., the EU), banks use the taxonomy when submitting and disclosing mandatory climate change information to the relevant regional authorities. ・ However, we do not currently consider that the EU taxonomy is a very useful tool for internal decision-making. We are more likely to rely on industry guidance and other policies. Although successful in defining 'green', the EU taxonomy does not allow a nuanced picture of the transition and does not facilitate goal setting and progress measurement by companies. ・ The UK could gain valuable insights from using Japan's Ministry of Economy, Trade and Industry (METI) roadmaps developed for their economic and industrial planning as a reference for creating their own taxonomy for sustainable investments and industrial strategy. This includes, among others, specific roadmaps for technology and innovation driven sectors, use of data and modelling, incentive structures to mobilise capital, integration of the circular economy and social and regional inclusion.
15	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.	・ Interoperability with other taxonomies, including the EU Taxonomy, is crucial to ensure that a shared understanding globally about what is green and what is not. This is also important to minimise risks of companies seeking to shift emissions to more lenient jurisdictions and allows for comparisons between firms. The UK can use its leading position to promote convergence in this crucial area. ・ It is also important to recognise that different countries begin at different starting points. The UK should leverage its leading position to help all jurisdictions to make progress with reference to already established taxonomies (e.g. EU, China (catalogue), Singapore).
16	Are there any lessons learned, or best practice from other jurisdictional taxonomies that a potential UK Taxonomy could be informed by?	・ Learning from the experience of using the EU Green Taxonomy, we would recommend against implementing a singular GAR, which does not provide a detailed view of banks' portfolios and has not been very useful as a metric for the financial sector. We would recommend a more detailed and nuanced set of reporting options.

#	Question	Comments
	Taxonomy design questions: Environmental objectives and sectoral scope	
	Existing taxonomies currently in operation focus on a number of environmental objectives. The most prominent are climate mitigation and climate adaptation, but others include biodiversity and ecosystems, circular economy, pollution prevention and control, and sustainable use and protection of water and marine resources. The government welcomes views on the objectives any future UK Taxonomy should incorporate and on what basis their development should be prioritised. Subject to stakeholder feedback on the value and use cases of a UK Green Taxonomy, the government proposes that nuclear energy will be classified as green in any future UK Green Taxonomy (subject to further consultation). Some jurisdictions have taken a staged approach to sectoral coverage, with new sectors added over time. There has been feedback on some existing taxonomies that the selective sectoral approach makes it more difficult to use and does not allow for a genuine comparison of investments.	
18	What environmental objectives should a UK Taxonomy focus on (examples listed above)? How should these be prioritised?	・ We would suggest that priorities should be; 1.Climate change adaptation and mitigation 2.Conservation and restoration of biodiversity and ecosystems 3.Pollution prevention and control 4.Sustainable use and protection of water and marine resources 5.Transition to a circular economy
19	When developing these objectives, what are the key metrics which could be used for companies to demonstrate alignment with a UK Taxonomy?	・ Some obvious examples include globally used indicators such as greenhouse gas emissions, energy efficiency, water usage and quality standards, resource use efficiency, recycling rates, reduction rates, reduction in the use of pollutants, proportion of alternative materials used, and conservation rates of protected areas. ・ When examining potential metrics for companies to demonstrate taxonomy alignment, we would recommend that UK Government seeks to improve in consideration of the experience of implementing the GAR in the EU. ・ One option would be to require reporting on 'shades of green' for financial sector entities. Specifically, banks report different segments of their portfolios, including fully aligned business, unaligned business which is considered transition finance, and business that is considered 'brown'. This would provide a much more useful measure of a bank's portfolio and performance in transitioning its book and its clients towards greener taxonomy-aligned activities.

#	Question	Comments
20	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)	・ The granularity and content of information that investors seek tend to be relatively more detailed than the granularity of information that companies can disclose or collect, especially when considering DNSH (Do No Significant Harm) as well. Additionally, it is conceivable that collecting data using indicators for the information investors seek may not always be practically easy (due to high data collection costs). It is important to set quantitative (or qualitative, if difficult) indicators and thresholds that are practically feasible to collect data within a certain cost, allow for easy comparison between companies within the same sector, and are effective in considering transition and future net-zero goals.
	Taxonomy design questions: Do No Significant Harm	
	A key component for other taxonomies is a mechanism to ensure that progress against one environmental objective does not cause significant harm to other environmental objectives. This seeks to avoid aligning an economic activity which substantially contributes towards climate change mitigation and/or adaptation, but could cause significant harm to other environmental objectives, risking adverse impacts on the natural environment. For example, it would provide a check that measures to protect against flooding, under an adaptation objective, avoided material damage to a local ecosystem. The government is however mindful that such a mechanism should be usable and proportionate and would like to gather views on how to balance being both user friendly and environmentally robust. Business practice safeguards Some taxonomies include additional social safeguards relating to basic good business practice which work as an additional due diligence check outside of the economic activity level criteria. The government welcomes feedback on the value of including these safeguards as a condition of taxonomy alignment, or whether these should be separated from a UK Taxonomy, noting that the UK has existing robust requirements to safeguard against human rights abuses and labour exploitation by UK-based business.	
21	What are respondents' views on how to incorporate a Do No Significant Harm principle, and how this could work?	・ From the EU experience, the DNSH principle can be difficult to apply when aligning with a granular taxonomy. It can be difficult to reconcile the quantitative requirements of a taxonomy with the more qualitative requirements of the DNSH principle, leading to some confusion when trying to apply both. ・ Since the conditions that meet DNSH is still unclear, balancing mitigation and biodiversity, and determining to what extent the development of areas rich in natural environments should be permitted is difficult to determine from the perspective of achieving a sustainable society.

#	Question	Comments
		• If implementing the DNSH principle, the UK should clearly define this in reference to English law and should seek to address interoperability with the taxonomy at the design stage. • It is advisable to set minimum safeguards in conjunction with this.
	Taxonomy design questions: Updates over time	
	As the UK transitions to net zero and makes progress towards environmental targets, the government expects that the underlying criteria for economic activities which make a substantial contribution to particular objectives (e.g. climate change mitigation) may change. Any updates to criteria will need to keep pace with scientific, technological, and policy developments in line with the UK's Net Zero and Carbon Budget targets, the Environment Improvement Plan and National Adaptation Programme. This needs to be balanced with maintaining stability of Taxonomy information for the market. Other jurisdictions update their taxonomies every three years, and it is likely a UK Taxonomy would require updates to a similar time frame. These updates could include adding new activities, responding to emerging environmental pressures or to reflect a major policy change that affects standards in a particular sector. As mentioned previously, the inclusion of transitional elements within a UK Taxonomy would likely require a more dynamic framework to reflect how economic activities will change over time. The government welcomes views on the frequency of updates to a UK Taxonomy, whether this would be different when considering transitional activities and how this might affect users of a UK Taxonomy.	
22	It is likely a UK Taxonomy would need regular updates, potentially as often as every three years. Do you agree with this regularity?	• While updates on a short-term basis are considered effective, a revision every three years, including the review process, is deemed reasonable.
23	Would this pose any practical challenges to users of a UK Taxonomy?	• There is a possibility that technological innovation may occur faster than anticipated within three years, or that crises in energy security due to conflicts may cause delays in the adoption of technologies.
24	Would this timeframe be appropriate for transition plans?	• It is considered appropriate (it may be necessary to periodically monitor whether the time frame remains suitable).
	Taxonomy design questions: Governance and oversight	
	To support updates to a UK Taxonomy, the government is seeking views on what the desired level of governance and oversight arrangements that could be put in place to ensure a UK Taxonomy maintains credibility as a tool for use in financial markets and across the economy over time. Other jurisdictions have created joint industry and government initiatives to develop and maintain taxonomies, or have looked to international organisations to lead	

#	Question	Comments
	taxonomy development. The government welcomes views on governance options for a UK Taxonomy, including views on the role for government, the private sector and non-governmental organisations.	
25	What governance and oversight arrangements should be put in place for ongoing maintenance and updates to accompany a UK Taxonomy?	・ We would recommend that the taxonomy is made voluntary, but that it is reviewed and updated at regular intervals through collaboration between industry groups (companies), the government, investors, experts, and international organizations. It is important however that the reporting requirements are clear and that expectations are appropriately set for those institutions intending to use the taxonomy. ・ Additionally, oversight by independent third parties (experts) is also considered effective to prevent the risk of the taxonomy being arbitrarily distorted.

(End)