



IFoA response to the Treasury consultation on a UK Green Taxonomy

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Key points

- Actuaries have a crucial role to play in promoting the understanding and integration of climate risks and opportunities within decision-making, and in making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.
- Implementing multiple local taxonomies on a global investment portfolio will introduce additional administrative burdens and cost, but we would expect only limited additional useful insights for assessing the sustainability risks and opportunities within an investment portfolio.
- It is unclear how a UK Green Taxonomy would work with current Sustainability Disclosure Requirements (SDR) and the upcoming industrial strategy. We consider embedding green taxonomy objectives within the industrial strategy as a more impactful and efficient approach to supporting capital allocation decisions.
- We would be concerned that a UK taxonomy focused on 'green' rather than 'transition' activities might have the effect of withdrawing capital from industries critical to the net-zero transition. It is vital that investment capital can flow to those companies with most to do to transition and with the most credible plans to deploy capital to that purpose.
- An alternative approach may be a Sustainability Certificate for investments, similar to the way an actuary provides a valuation for a pension fund. This would provide confidence over the complexity of the investments and the need to incorporate an assessment of the investment strategy against a long-term investment objective.

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Introduction

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Treasury's consultation on the value case for a UK Green Taxonomy. This response is by members of the IFoA Sustainability Board and the Finance and Investment Board and is written in the public interest.

Actuaries have a crucial role to play in promoting the understanding and integration of climate risks and opportunities within decision-making, and in making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. By evaluating systemic sustainability impacts on the financial systems, actuaries are involved in assessing how sustainability topics and the transition to net zero may impact on our assessment of future liabilities and the adequacy of returns to meet these future liabilities.

While a taxonomy might be a helpful tool to communicate how an investment portfolio is supporting capital flows, it will only be effective if there is a broader supportive policy framework.

We question why this consultation is taking place now. We have SDR in implementation and we have an industrial strategy coming. If this was five years ago, then leading with a taxonomy might have made more sense. Given these developments, it is not clear how these three policy initiatives work together. We consider embedding green taxonomy objectives within the industrial strategy as a more impactful and efficient approach to supporting capital allocation decisions.

Users of the EU taxonomy have noted that it is focused on sectors that can be most easily categorised as 'green'. A UK taxonomy that is similarly focused on 'green' rather than 'transition' activities may have the effect of withdrawing capital from industries critical to the net-zero transition. It is vital that investment capital can flow to those companies with most to do to transition and with the most credible plans to deploy capital to that purpose.

There is benefit from the standardisation that green taxonomies seek to provide. However, the data requirements to support a green transition are complex, depend on the broader supporting policy landscape, and evolve over time. While a taxonomy might encourage more sophisticated disclosure of activities by companies, other mechanisms may be more effective in improving data resolution.

Implementing multiple local taxonomies on a global investment portfolio will introduce additional administrative burdens and cost, but we would expect only limited additional useful insights for assessing the sustainability risks and opportunities within an investment portfolio.

We consider that there may be alternative approaches to meeting the goals of promoting market integrity and preventing greenwashing, while mobilising capital into sectors critical for the transition, than through developing a UK green taxonomy.

A Sustainability Certificate for investments, similar to the way an actuary provides a valuation for a pension fund, could be an effective tool. This would provide confidence over the complexity of the investments and the need to incorporate an assessment of the investment strategy against a long-term investment objective.

This principle-based approach may be more helpful to support green investments than a rules-based taxonomy that does not really fit for all the investments that we are looking for. In addition, this approach would require the certificate provider to have or obtain sufficient knowledge and understanding of the information necessary to perform the assignment. Specific considerations may include aspects of climate science, climate risk modeling and the financial objectives of the investment portfolio, including but not limited to understanding relevant sustainability objectives.

The IFoA is a professional body that is regulated with public interest expectations and with professional standards and codes of ethics. We have integrated sustainability education and provide educational support¹ and ethical and professional guidance² to members on climate change. Actuaries have been at the forefront of thinking around systemic climate risks and climate scenarios³. As well as understanding the investment needs of a portfolio⁴, actuaries are used to providing judgement where there is uncertainty and poor data. They would be well-placed to assess the individual details specific to a firm to provide an opinion on the sustainability of their investments.

We would be pleased to meet with Treasury officials to discuss any of our points further. Please contact Caroline Winchester, IFoA Policy Manager (caroline.winchester@actuaries.org.uk / 01259 761020) in the first instance.

1. To what extent, within the wider context of government policy, including sustainability disclosures, transition planning, transition finance and market practices, is a UK Taxonomy distinctly valuable in supporting the goals of channelling capital and preventing greenwashing?

A use case for a UK Taxonomy is to inform assessments of project and business finance and support investments to align with investment objectives that include sustainability-focused objectives.

a. Are there other existing or alternative government policies which would better meet these objectives or the needs of stakeholders?

The way to get investment into transition assets is through incentives rather than taxonomies; from an insurance/ reinsurance perspective, UK Solvency would be a better place to start.

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

In order to support the allocation of transition finance, a potential UK Green Taxonomy should deliver classifications that encourage – or at least do not hinder – investment into “transition activities”, including for example investments that begin to reduce emissions in high emissions sectors that will be essential to a future net zero emissions economy (such as steel, cement, agriculture and transport) but which do not yet bring these sectors down to net zero emissions. It is important that the systemic effect of investments is considered rather than artificial, single company measures. For example, society may need the Scope 3 emissions from the use of a particular company’s products to increase to the extent that their products are more carbon-efficient and displace higher Scope 3 emissions from another’s products.

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

A potential UK taxonomy should seek to be equivalent as much as possible to other major global taxonomies such as the EU’s. This means using similar concepts, methodologies and metrics so that investors using more than one taxonomy can compare easily for decision-making purposes. This would be key to ensure

¹ [Practical Guides for Actuaries on Climate Change, Climate Risk and Sustainability Course](#)

² [Ethical and professional guidance on climate change: A guide for members](#)

³ Our series of reports with earth system scientists at Exeter University: [The Emperor’s New Climate Scenarios](#), [Climate Scorpion – the sting is in the tail](#), [Planetary Solvency – finding our balance with nature](#)

⁴ [Portfolio alignment metrics What are they and how are they used in net zero investing?](#), [Net Zero Investing](#)

interoperability with existing taxonomies and would help minimise reporting burden for corporates and investors reporting across different jurisdictions and taxonomies.

7. Are there any lessons learned, or best practice from other jurisdictional taxonomies that a potential UK Taxonomy could be informed by?

A potential UK green taxonomy should learn from the lessons of the EU taxonomy implementation. A key area is DNSH criteria – see Q12 on that. Another key challenge is the complexity and lack of clarity of the criteria, which can lead to inconsistency of application and therefore reduced its value as a tool to facilitate green capital flows and comparability; it runs the risk of reducing it to yet another regulatory compliance exercise.

For insurers and reinsurers, alignment with the EU Green Taxonomy is limited, as reported by EIOPA ([The EU sustainable finance taxonomy from the perspective of the insurance and reinsurance sector - EIOPA](#)).

Yet insurers and reinsurers are likely able to play a key role in the transition towards a more sustainable society. Therefore a UK green taxonomy should aim to use reporting metrics that are easily understood by users and preparers alike and that are easily verifiable by third parties.

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

Clarity, comparability, and science-based criteria and metrics would provide a starting point for designing a taxonomy that adds value.

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

It is important that a UK green taxonomy reflects the lessons learnt from the implementation of the EU taxonomy – especially with regards to the DNSH principle. This has led in practice to a significant number of DNSH criteria, which make the application of this principle overly complex. While the principle is important and should be preserved, streamlining the approach is crucial, for example by limiting the number of DNSH criteria to the ones with most material negative impacts, with minimum thresholds.

13. It is likely a UK Taxonomy would need regular updates, potentially as often as every three years. a. Do you agree with this regularity? b. Would this pose any practical challenges to users of a UK Taxonomy? c. Would this timeframe be appropriate for transition plans?

While regular updates could ensure the taxonomy remains relevant, likely changes under the taxonomy should be easily foreseen by investors and real economy businesses, therefore done on the basis of clearly understood and objective criteria.

Three years seems short. We need policy stability and three years means it's basically under review as soon as it's launched. We would be concerned around the ability for anyone other than the industry in question to actually be able to review it, creating a mark-my-own-homework problem and insider biases.

The review process is hard to assess without knowing the purpose, i.e. if it is a narrow "green" taxonomy then it should last longer than 3 years. If it is a wider "transition" taxonomy then it might need to be more flexible, but maybe added to over time rather than taken from.

14. What governance and oversight arrangements should be put in place for ongoing maintenance and updates to accompany a UK Taxonomy?

A UK Green Taxonomy should be overseen by an independent body with a strong understanding of climate, environmental and finance considerations.