

EUROSIF POSITION PAPER ON THE REVIEW OF SFDR



24 February 2026

Executive Summary

The Sustainable Finance Disclosure Regulation (SFDR) is a core part of the EU sustainable finance framework. It has significantly improved transparency on sustainability-related considerations in financial markets. However, while SFDR was designed as a disclosure-based regime, it was implemented by financial market participants as a de facto product classification system. This led to implementation challenges and inconsistent interpretations.

The SFDR review is an opportunity to fix these shortcomings. A clearer, more robust framework will help end investors (including retail investors and large asset owners such as pension funds) identify opportunities to allocate capital towards the sustainable growth of businesses across Europe, in line with the EU Savings and Investment Union (SIU) objectives.

The European Commission's [proposal](#) of 20 November 2025 provides a good foundation for meaningful reform.

We welcome in particular:

- A shift to a structured product categorisation system supported by minimum criteria, bringing greater clarity and comparability.
- Explicit recognition of impact investing, acknowledging its distinct role in driving measurable environmental and social outcomes.
- Exclusion of companies with fossil fuel expansion plans or without coal phase-out plans from “sustainable” and “transition” products, reinforcing credibility and ambition.
- Clear rules linking the use of sustainability-related names and marketing communications to compliance with SFDR criteria, preventing misleading claims.
- Tailored treatment for use-of-proceeds instruments, including European Green Bonds, and for products that combine other products (e.g. funds-of-funds), better reflecting how sustainability approaches are implemented in practice.
- Simplified website disclosures and greater clarity on the use of data and estimates, improving usability and transparency for end investors.

Areas for improvement:

To fully achieve the SFDR's objectives, enhance its practical usability for market participants, and deliver more meaningful information for end investors, the European Commission's proposal should be improved in four areas:

Recommendation 1: Establish clear, practical and robust criteria tailored to different asset classes across SFDR categories to ensure sufficient ambition and prevent greenwashing.

Criteria must be sufficiently clear, ambitious and operational to prevent greenwashing while remaining workable across diverse investment strategies and asset classes.

- 1.1. Set the threshold for “positive contribution” at the technical level to align with its calculation method and to reflect differences across asset classes.
- 1.2. Define the “proper justification” required for the “positive contribution” criteria and outline the approaches that would not be eligible for each category.
- 1.3. Improve clarity on “socially sustainable” investments by establishing dedicated criteria.
- 1.4. Introduce minimum social and governance safeguards to guide financial market participants’ due diligence efforts across the regime.
- 1.5. Provide guidance on the application of SFDR criteria for investments in non-EU jurisdictions.

Recommendation 2: Ensure SFDR category- specific criteria are consistent with their objectives and features.

Each category’s criteria should reflect its purpose, with consistent requirements that reinforce its distinct role within the framework.

- 2.1. Reinstate a principle of “Do No Significant Harm” for the “sustainable” category to fill in the gaps left by the deletion of the “sustainable investment” definition.
- 2.2. Make the “transition” category better reflect real-world decarbonisation by defining what constitutes “credible” engagement and transition plans, making engagement one of its core criteria, and adjusting its minimum exclusions.
 - a. Define what qualifies as “credible” sustainability-related engagement strategies and climate transition plans in the revised SFDR delegated act or via dedicated guidance.
 - b. Support real-world decarbonisation by requiring “transition” products to include a minimum percentage of investments with credible transition plans set at the asset level.
 - c. Make engagement one of the core requirements of the “transition” category and incentivise its possible use in the other SFDR categories.
 - d. Remove the additional exclusion for companies deriving revenues from hard coal and lignite from the “transition” category.
- 2.3. Improve the criteria across the “sustainable” and “transition” categories by tailoring requirements for “impact” products and adjusting the “safe harbours”.
 - a. Clarify the requirements for “sustainability-related financial products with impact”.
 - b. Adjust the “safe harbour” for Taxonomy-alignment to ensure the thresholds are reflecting products’ objectives.

- c. Remove the “safe harbour” for products replicating or managed in reference to Paris-Aligned / Climate Transition benchmarks to prevent misuse.
- 2.4. Clarify the purpose and features of the “ESG basics” category.
- a. Specify the treatment of general-purpose sovereign instruments in the “ESG basics” category via dedicated technical measures, guidance and disclosures.
 - b. Establish a specific disclaimer and tailored naming and marketing rules for “ESG basics” products.

Recommendation 3: Retain meaningful entity-level disclosures and recalibrate product-level disclosures to ensure transparency for end investors and market supervisors.

The European Commission’s proposal removes many disclosures that are relevant for both retail and institutional investors as well as market supervisors. These disclosures should be retained and streamlined to provide relevant, decision-useful information for end investors while supporting effective supervisory oversight.

- 3.1. Maintain and adjust entity-level disclosures to aggregate the information already published by financial market participants that is meaningful for end investors.
- 3.2. Establish a limited common set of comparable principal adverse impact indicators for categorised products to support current financial market participants practices.
- 3.3. Maintain currently existing Taxonomy disclosures for “sustainable” and “transition” products with environmental objectives.
- 3.4. Introduce a limited set of exposure indicators and a disclaimer for non-categorised products to improve comparability and level the playing field between all products.
- 3.5. Introduce consumer-friendly names and explanations for the SFDR categories, and describe their relevant features in the Key Information Document for Packaged Retail and Insurance-based Investment Products (KID PRIIPS).

Recommendation 4: Achieve coherent implementation and consistency with other EU rules.

Implementation must be well-sequenced and consistent with related EU sustainable finance rules to avoid duplication, contradictions, and unnecessary complexity.

- 4.1. Further specify the content and implementation timeline of the revised SFDR delegated act to ensure a well-sequenced implementation for the framework.
- 4.2. Improve consistency between SFDR and financial products distribution rules by clarifying how discretionary mandates can be integrated in the regime.
- 4.3. Align relevant EU rules (BMR, SRD, ESG ratings providers Regulation) with the revised SFDR to ensure regulatory coherence.

A summary table of the suggested SFDR 2.0 rules per category of products is available in the [Annex](#) of this document.

Eurosif detailed recommendations for a fit-for-purpose SFDR review

I. Establish clear, practical and robust criteria tailored to different asset classes across SFDR categories to ensure sufficient ambition and prevent greenwashing.

Eurosif overall welcomes the proposal for three categories and minimum criteria suggested by the European Commission (EC). However, some adjustments are necessary to ensure the criteria and concepts that apply across categories are sufficiently robust, practical and prevent greenwashing. **In particular, criteria across SFDR categories should recognise the specificities of, and be tailored to, different asset classes such as private assets, real estate assets and sovereign instruments.**

1.1. Set the threshold for “positive contribution” at the technical level to align with its calculation method and to reflect differences across asset classes.

Assessment of EC proposal: the EC suggests that products categorised under SFDR should demonstrate a “positive contribution” to a sustainability-related objective or the application of relevant sustainability-related features for 70% of its investments. This marks a shift from the ESMA guidelines for funds using ESG or sustainability-related terms¹, which set this threshold at 80%. Additionally, the calculation method for this threshold will be specified in a revised SFDR delegated act. However, this calculation method will be essential in determining what threshold of positive contribution is relevant for products categorised under SFDR.

Eurosif recommendations: we support establishing the requirement to demonstrate a positive contribution to sustainability factors across SFDR categories. However, **this minimum threshold should be set at technical level**, via the revised SFDR delegated act to be adopted by the European Commission.

This would allow **proper consideration of tailored treatment for different classes of assets**, ensuring the threshold and chosen calculation method are relevant. In particular, the revised SFDR delegated act should specify the treatment of general-purpose sovereign instruments for the “ESG basics” category, depending on whether these are held for investment purposes or for liquidity purposes (see [Recommendation 2.4.i.](#)).

Importantly, the revised SFDR delegated act should **specify rules related to the potential fluctuations around this threshold**, including necessary ramp-up periods or divestment periods at the end of life of the fund. Additionally, it should include measures financial market participants must apply in the eventuality that the portion of “positive contribution” investments falls below the minimum threshold.

¹ ESMA, [Guidelines on funds’ names using ESG or sustainability-related terms](#), August 2024

1.2. Define the “proper justification” required for the “positive contribution” criteria and outline the approaches that would not be eligible for each category.

Assessment of EC proposal: The EC lists some approaches that financial market participants can select to comply with the “positive contribution” across the different categories. Overall, these lists include some examples that are relevant and consistent with each category’s objective and features. The proposal also allows any other approach for the “positive contribution” criteria, subject to “proper justification” – however, it does not define what this concept entails.

Eurosif recommendations: to ensure legal clarity and prevent greenwashing, we suggest **defining “proper justification”**, explaining it should rely on widely recognised and credible EU or international standards, frameworks and labels and be tailored to specific assets classes (see [Recommendation 1.5.](#)). To provide further certainty to market participants and facilitate implementation, negative lists of approaches that would not be eligible for each SFDR category’s positive contribution criteria should also be established. **The definition of “proper justification”, as well as negative lists of ineligible approaches, should be set at the technical level** in the revised SFDR delegated act (see [Recommendation 4.i.](#)).

1.3. Improve clarity on what constitutes “socially sustainable” investments by establishing dedicated criteria.

Assessment of EC proposals: the proposal mentions that products categorised under SFDR can contribute to an environmental or social objective(s). However, currently there is no common EU framework or standard defining “social investments” or “socially sustainable economic activities”. This has been already voiced by financial market participants as a gap in the context of the implementation of SFDR 1.0. This results in an imbalance between the treatment of environmental and social matters in sustainable finance and poses a challenge for asset managers manufacturing products which pursue social objectives. Ultimately this also results in insufficient comparability for end investors as financial market participants may be using very different frameworks that exist locally or outside Europe.

Eurosif recommendation: the EC should be mandated to develop **criteria defining what can be considered “socially sustainable” investments**. These criteria could be defined in the revised SFDR delegated act or via dedicated guidelines from the European Commission and be consistent with the guidance on which international frameworks, standards and labels are sufficiently robust to be used for the purpose of SFDR categorisation (see [Recommendation 1.5.](#)).

1.4. Introduce minimum social and governance safeguards to guide financial market participants’ due diligence efforts across the regime.

Assessment of EC proposals: The initial SFDR required sustainable investments to “Do No Significant Harm” to other environmental or social objectives, and to invest in companies with “good governance”. These concepts lacked clarity, and the European Commission replaced them in the SFDR review with minimum exclusions that apply across the SFDR categories.

While this approach has its merits, the limited nature of these minimum exclusions with regard to social and governance issues does not fully capture the role of these former concepts in incentivising best practices. This may create a gap in ambition, and a *de facto* disadvantage for

participants whose methodologies, exclusions and investment approaches already go beyond the SFDR minimum exclusions.

Eurosif recommendations: establish minimum social and governance safeguards applicable across SFDR categories, to ensure that categorised products do not include any investments going against sustainability-related objectives or features, and that market participants conduct appropriate due diligence to invest in companies with good governance.

These minimum safeguards should replicate the ones established for the same purpose under the EU Taxonomy Regulation to ensure regulatory consistency, and explicitly require investments in assets in line with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

1.5. Provide guidance on the application of SFDR criteria for investments in non-EU jurisdictions.

Assessment of EC proposals: the EC proposal references frameworks such as the EU Climate Law, and the European Pillar of Social Rights which are essential to guide financial market participants when complying with the revised SFDR framework. Additionally, the criteria for SFDR categories reference robust EU standards and regulations, such as the EU Taxonomy. However, many financial market participants invest in assets located in non-EU jurisdictions. The EC proposals do not specify how products integrating these investments could assess their compliance with the SFDR criteria.

Eurosif recommendations: mandate the European Commission to provide guidance on which international standards and labels are sufficiently robust to be used for the purpose of SFDR categorisation.

As examples, the European Commission should assess to which extent market frameworks such as the Transition-Plan Taskforce (TPT) could be used to determine the “credible” nature of investee companies’ transition plans, or the SBTi for establishing “credible” science-based climate targets. Similarly, the EC should assess to which extent international Taxonomies could be used to comply with the SFDR criteria referencing the EU Taxonomy. Importantly, such guidance should identify the eventual gaps financial market participants using these frameworks would need to fill for their products to be compliant with SFDR criteria.

The EC should consider international corporate sustainability reporting standards when establishing the indicators for monitoring progress against the positive contribution objective and the Principal Adverse Impact indicators. The data points needed to calculate these indicators should be available globally using either the revised European Sustainability Reporting Standards (ESRS), the voluntary reporting standard to be adopted by the European Commission as mandated in the Corporate Sustainability Reporting Directive (CSRD), or international sustainability reporting framework such as the International Sustainability Standards Board (ISSB) or Global Reporting Initiative (GRI) standards.

2. Ensure SFDR category-specific criteria are consistent with their objectives and features.

2.1. Reinstate a principle of “Do No Significant Harm” for the “sustainable” category to fill in the gaps left by the deletion of the “sustainable investment” definition.

Assessment of EC proposals: the European Commission proposes to establish minimum exclusions for each SFDR category, which are intended to replace the concepts of “Do No Significant Harm” and investing in companies with “good governance” underpinning the “sustainable investment” definition of the current SFDR (see [Recommendation 1.4.](#)).

These proposals for minimum exclusions are based on those applied by EU climate benchmarks (Paris-Aligned and Climate Transition Benchmarks, PAB / CTB). However, these exclusions consider only climate-related and basic social indicators, and do not refer to wider social or environmental (e.g. biodiversity) factors – whereas the “sustainable” category’s objectives can span across all environmental and social aims.

This creates a gap with how the principle of “Do No Significant Harm” is currently applied by market practitioners. Despite implementation challenges, this principle was widely adopted and has proven effective in ensuring that current sustainable investments (or so-called “Article 9” products) do not cause significant harm to sustainability objectives across a wide range of environmental, social and governance factors.

While the exclusions suggested in the EC proposal provide more explicit requirements, they are likely to result in a less robust approach in the case of the “sustainable” category.

Eurosif recommendations: reinstate a principle of “Do No Significant Harm” for the “sustainable” category, by requiring financial market participants to establish additional environmental or social exclusion(s) based on indicators that would be material to the investment strategy of their products as well as adapted to their asset class.

To do so, they should have to pick among the relevant environmental Principal Adverse Impact indicators to be established by the revised SFDR delegated act at least one indicator that will be used to apply additional environmental or social exclusion(s) (see [Recommendation 2.1.](#)). To ensure this approach is effective, the proposed indicators should be tailored to different asset classes and cover a wide range of environmental and social factors.

The threshold or type of exposure set by the financial market participant to determine these additional exclusions should be disclosed in the precontractual documentation of the product.

2.2. Make the “transition” category better reflect real-world decarbonisation by defining what constitutes “credible” engagement and transition plans, making engagement one of its core criteria, and adjusting its minimum exclusions.

a. Define what qualifies as “credible” sustainability-related engagement strategies and climate transition plans in the revised SFDR delegated act or via dedicated guidance.

Assessment of the EC proposal: We appreciate the European Commission’s introduced new concepts as part the SFDR “transition” category’s criteria, in particular “credible sustainability-

related engagement strategy” and investments in companies with a “credible transition plan”. However, these concepts are not defined, even though transition plans and investor engagement policies may vary in terms of structure and commitments.

Eurosif recommendations: define what constitutes a “credible sustainability-related engagement strategy,” focusing on the means required to justify credible engagement claims, such as a formalised sustainability-oriented engagement including voting strategy at the level of the financial market participant with predefined, measurable, and time-bound objectives and targets, underpinned by an action plan with escalation measures and an eventual divestment strategy. This definition should also be aligned with the proposal for reviewing the Shareholders’ Rights Directive (SRD II), expected in Q4 2026.

Similarly, the concept of “credible transition plans” **should be further defined and tailored to different asset classes.** In the case of corporate transition plans, it is important that they are compatible with the transition to a sustainable economy as reflected in the Paris Agreement and the EU Climate law objectives to ensure their robustness. Corporate transition plan disclosures should be aligned with the provisions of CSRD/ESRS or international sustainability reporting frameworks that are deemed to be of similar credibility by the European Commission (see [Recommendation 1.5.](#)).

For practical reasons, **we suggest that these concepts are further defined in the revised SFDR delegated act or via dedicated guidelines,** which would facilitate consistency and coherence with other ongoing regulatory developments such as the review of the SRD II.

b. Support real-world decarbonisation by requiring “transition” products to include a minimum percentage of investments with credible transition plans set at the asset level.

Assessment of EC proposals: For investors, transition plans are key to understanding whether a company’s business model is on the path towards climate neutrality, its impacts on the environment and people, and to avoiding the risks of stranded assets resulting in significant loss of company value. Transition plans can be established for different types of entities, for example to demonstrate the decarbonisation of buildings. The application of such plans at the level of the underlying assets (e.g. investee companies or buildings) of a portfolio is a key metric for financial market participants to build financial products with a transition strategy. It is also among the most credible indicators to demonstrate that these financial products can contribute to real-economy decarbonisation.

The SFDR review acknowledges the important role of climate transition plans and lists investments in undertaking or economic activities with these plans as one of the eligible approaches to comply with the “positive contribution” criteria in the “transition” category. However, the proposal also allows portfolio-level decarbonisation objectives that can be achieved by shifting the underlying assets of the financial product and do not directly translate into effects in the real-deconomy.

Eurosif recommendations: the “transition” category should further incentivise channelling investments towards real-world decarbonisation. Products from the transition category and with an environmental objective should include a **minimum proportion of investment with**

credible transition plans set at the asset level, with targets in line with the objective of the fund. The exact percentage required and how it would apply to different types of assets should be established at the technical level in the revised SFDR delegated act (see [Recommendation 4.1](#)). These products would still have to comply with the minimum exclusions and disclosures of this category for the entirety of the product's investments.

c. Make engagement one of the core requirements of the “transition” category and incentivise its possible use in the other SFDR categories.

Assessment of EC proposals: While the EC proposal integrates provisions on engagement, it is established as a possible voluntary add-on to the approaches eligible under the “transition” category. However, engagement is one of the most essential levers for financial market participants to support decarbonisation of e.g. their investee companies, which is a key strategic objective of the EU. Additionally, the EC proposal only mentions engagement in the context of “transition” products, whereas the application of a credible sustainability-related engagement strategy could also complement investment approaches for the “sustainability” and “ESG basics” categories.

Eurosif recommendations: considering its importance to incentivise the transition of investee companies, the **implementation of a credible sustainability-related engagement strategy to a minimum proportion of the portfolio** (in terms of number of companies or percentage of Assets under Management) **should be a requirement for “transition” products**. This requirement should only apply whenever relevant given the asset class and type of investment approach selected. This should be applied cumulatively with the rest of the category's criteria, and the threshold should be set via the revised SFDR delegated act (see [Recommendation 4.1](#)).

Additionally, the “sustainable” and “ESG basics” categories should explicitly mention sustainability-related engagement strategies as a possible add-on approach to contribute to the sustainability objective or features, respectively.

What constitutes “credible sustainability-related engagement strategies” should also be explicitly defined in SFDR (see [Recommendation 2.2.a](#)).

d. Remove the additional exclusion for companies deriving revenues from hard coal and lignite from the “transition” category.

Assessment of EC proposals: in addition to referencing the list of exclusions of the EU Climate Transition Benchmarks (CTBs) for the “transition” category, the EC suggests an exclusion (pertaining to the Paris-Aligned Benchmarks) for companies deriving more than 1% of their revenue from exploration, mining, extraction, distribution or refining of hard coal and lignite.

However, this approach would exclude companies with credible transition commitments but with existing coal activities from “transition” products, which is often the case, particularly in some countries that remain dependent on fossil fuels. Yet these companies are precisely the ones that need financing to support their transition.

Eurosif recommendations: the **additional exclusion on companies deriving more than 1% revenue from coal-related activities should be removed for the “transition” category**. However,

we support maintaining the Climate Transition Benchmarks exclusions as well as the additional exclusions for companies with fossil fuel expansion plans or no coal phase out plans from the “transition” category (see summary table in the [Annex](#)), with a caveat that specific criteria for categories should be tailored to different asset classes and finalised in the revised SFDR delegated act given their technical nature (see [Recommendation 4.1](#)).

2.3. Improve the criteria across the “sustainable” and “transition” categories by tailoring requirements for “impact” products and adjusting the “safe harbours”.

a. Clarify the requirements for “sustainability-related financial products with impact”.

Assessment of EC proposals: the EC proposal establishes a dedicated definition for “sustainability-related financial products with impact”. These products must disclose additional information on how they deliver impact to be able to make related claims.

We strongly support the acknowledgment of impact investing in SFDR, as this will hopefully support the development of products that aim to bring a real-world impact through investor contribution. However, some gaps remain in EC proposal that need to be filled to ensure the impact claims are substantiated.

Eurosif recommendations: complete the requirements for products making impact claims by explicitly referring to the additional disclosures as impact criteria, requiring the indicator(s) used to assess progress against the objective to be a relevant impact KPI(s) that is consistent with the theory of change, and specify how investor contribution to the positive impact is ensured, e.g. via application of a credible sustainability-related engagement strategy, provision of capital to new/undersupplied markets, provision of flexible capital or similar types of investor contribution.

b. Adjust the “safe harbour” for Taxonomy-alignment to ensure the thresholds are reflecting products’ objectives.

Assessment of EC proposals: both the “sustainable” and “transition” categories integrate a safe harbour for financial products with a proportion of investments in Taxonomy-aligned economic activities equal or higher than 15% – provided the other minimum criteria (for example exclusions) from the respective categories are met.

However, it is unclear how these thresholds should be calculated and whether these include alignment of companies’ turnover, Capital Expenditures (CapEx) or Operational Expenditures (OpEx) with the EU Taxonomy. Furthermore, having the same threshold for different categories does not reflect their respective sustainability-related objectives and may be confusing to end investors. Finally, the EC proposals are unclear over the treatment of the remaining percentage of investment that would not be Taxonomy-aligned.

Eurosif recommendations: the calculation method and these thresholds should be set at the technical level via the revised SFDR delegated act (see [Recommendation 4.1](#)) to properly consider different types of assets and sectors.

The safe harbours should also be adjusted so that they better correspond to the objectives of their respective category:

- For the “sustainable” category, the Taxonomy-alignment threshold should refer to **turnover** alignment.
- For the “transition” category, two safe harbours could be established:
 - Products **meeting a certain threshold of Taxonomy-alignment with an aim to increase Taxonomy-alignment by a minimum percentage over a specified time horizon** (e.g. 3-5 years). This threshold should directly refer to **turnover** alignment.
 - Products meeting a certain threshold **of CapEx Taxonomy-alignment**.

The SFDR review should also clarify that **all remaining investments of products using these safe harbours should be managed in line with the rest of their categories’ criteria** - notably the relevant minimum exclusions, minimum social and governance safeguards (see [Recommendation 1.4.](#)), and relevant disclosures.

As specified in the SFDR review proposal, these safe harbours’ thresholds should be revised regularly to ensure they stay relevant over time, considering the uptake of the EU Taxonomy.

c. Remove the “safe harbour” for products replicating or managed in reference to Paris-Aligned/Climate Transition benchmarks to prevent misuse.

Assessment of EC proposals: the EC proposal suggests that funds replicating or managed in reference to Paris-Aligned Benchmarks or Climate Transition Benchmarks (PABs/CTBs) can be considered as complying with the criteria of the “sustainable” category (for PABs) or “transition” category (for PABs & CTBs). However, the additional exclusions for companies with fossil fuel expansion plans or without coal exit plans applicable to all other products from the “sustainable” and “transition” categories would not apply for these products. This creates a potential loophole in the criteria and establishes an unlevel playing field between passively and actively managed products.

Eurosif recommendations: we suggest deleting this safe harbour, which adds complexity without bringing clear benefits for market participants. While investments replicating or being managed in reference to EU climate benchmarks is a valid approach to fulfil the “positive contribution” criteria for both categories, all products from the “sustainable” and “transition” categories should also respect their full range of minimum exclusions and disclosures.

2.4. Clarify the purpose and features of the “ESG basics” category.

We acknowledge the need for a category that would incorporate wider approaches and more flexible features than the “sustainable” and “transition” categories, and hence we support the establishment of the “ESG basics” category.

However, the criteria of this category, and its reference to sustainability-related “features” rather than “objectives” makes its level of sustainability ambition and characteristics different from the other two categories. **This difference should be made more explicit especially to retail**

investors. Furthermore, **the criteria “ESG basics” category should not result in this category becoming “all encompassing”**, which has been an issue for products with Environmental or Social characteristics (referred to as “Article 8” products) in the current SFDR framework. This would undermine the usefulness of the SFDR categorisation regime and may lead to greenwashing.

a. Specify the treatment of general-purpose sovereign instruments in the “ESG basics” category via dedicated technical measures, guidance and disclosures.

Assessment of EC proposals: The EC suggests that general purpose sovereign instruments wouldn’t be eligible for categorisation under the “sustainable” and “transition” categories but could be included as part of the positive contribution to sustainability features for the “ESG basics” category, subject to justification.

While international frameworks exist to assess the contribution of general-purpose sovereign assets to ESG or sustainability-related outcomes, it remains in practice extremely difficult to determine whether these financial instruments are effectively used in relation with sustainability-related activities. However, some jurisdictions require large asset owners, for example pension funds, to invest a certain amount of their assets in sovereign bonds.

Eurosif recommendations: to ensure that a larger scope of financial market participants can benefit from SFDR and comply with their liquidity requirements, while preventing misleading claims on the integration of sustainability factors, **we support establishing dedicated rules for general-purpose sovereign instruments held for investment or liquidity purposes when calculating the threshold percentage for the “positive contribution” criteria of the “ESG basics” category.** This should be specified in the revised SFDR delegated act that will define the methodology to calculate this threshold (see [Recommendation 4.1.](#)).

Additionally, clear guidance should be established to define the methodologies used to identify the sustainability of these assets (e.g., Corruption Perception Index, Climate Change Performance Index or similar), and their proportion as a percentage of the product’s total investments should be disclosed in precontractual documentation for all “ESG basics” products.

b. Establish a specific disclaimer and tailored naming and marketing rules for “ESG basics” products.

Assessment of EC proposals: due to its less stringent minimum criteria, the “ESG basics” category has a *de facto* different purpose and ambition compared to the “sustainable” and “transition” categories. However, the EC proposal does not include any transparency requirements that would make this explicit for end investors. This may be confusing especially for retail investors, which may infer from the “ESG basics” term a similar ambition than the other two categories.

Eurosif recommendations: adjust the naming, marketing and disclosure rules for the “ESG basics” category to prevent misrepresentation of its features. **Products under this category should be prevented from using names that could be misinterpreted as pertaining to the other two categories.** This includes preventing the use of “sustainability” and “transition”-related

terms, as well as “ESG”-related terms that do not also specify the limited / basic / minimum integration of sustainability features in the product. As an example, products from this category could use terms such as “ESG basics”, “Minimum Environmental” or “Basic Social/Governance” in their names.

In addition, the products from the “ESG basics” category should include in precontractual documentation and Key Information Document (KID) **a disclaimer clearly stating that the product does not have a sustainability or transition-related objective**, does not comply with the criteria of the SFDR “sustainable” and “transition” categories, and presents a different level of sustainability-related ambition compared to these two categories. Additionally, the proportion of general-purpose sovereign assets, as a percentage of the product’s total investments, should be disclosed in precontractual documentation (see [Recommendation 2.4.a.](#) above).

3. Retain meaningful entity-level disclosures and recalibrate product-level disclosures to ensure transparency for end investors and market supervisors.

While we support streamlining the SFDR product-level disclosures to ensure end investors are provided with the most relevant and meaningful information, some of the EC proposals may result in rolling back on transparency and comparability across both categorised and non-categorised products, but also across financial market participants.

3.1. Maintain and adjust entity-level disclosures to aggregate the information already published by financial market participants that is meaningful for end investors.

Assessment of EC proposals: The EC proposes to remove SFDR entity-level disclosure in relation with Principal Adverse Impact statements (PAI statements) to simplify the framework’s disclosure requirements. However, these disclosures – which notably describe financial market participants’ due diligence and engagement policies – are key to understanding the general objectives and processes they put in place to identify and remediate the adverse impacts of their investments.

Pending the potential adoption by the European Commission of sector-specific guidance for sustainability reporting, SFDR remains the only EU regulation that could include relevant entity-level disclosure requirements adapted to the specific activities of financial market participants.

Eurosif recommendations: SFDR entity-level disclosures should be maintained and adjusted to reflect the SFDR categorisation system and minimum criteria. It should focus on how FMPs identify and manage positive sustainability outcomes, as well as how they identify, manage and mitigate the adverse impacts of their investments.

This includes information on due diligence, engagement and exclusion policies, integration of sustainability risks in remuneration policies, and a description of the methodologies e.g. to establish their own approaches to sustainability-related investments. This information should be complemented by the amount of Assets Under Management (AuM) categorised under the SFDR categories as a share of total AuM of the financial market participant, and the aggregation of the cross-categories Principal Adverse Impact indicators and exposure-based indicators (see

[Recommendations 3.2.](#) and [3.4.](#)) at entity-level. These disclosures should be in line with and refer to the relevant EU regulations, for example the Shareholders' Rights Directive for engagement strategies.

3.2. Establish a limited common set of comparable principal adverse impact indicators for categorised products to support current financial market participants practices.

Assessment of EC proposals: the EC suggests maintaining product-level principal adverse impact disclosures for products from the “sustainable” and “transition” categories. However, the choice of indicator would be entirely left up to financial market participants. This could reduce comparability and transparency across categorised products, even for those from the same category and with similar objectives or features. Additionally, this would be detrimental to financial market participants that have been using standardised Principal Adverse Impact (PAI) indicators to guide their investment decisions and their engagement with investee companies.

Eurosif recommendations: all products categorised under SFDR should, on a mandatory basis, consider a common limited set of indicators on the principal adverse impacts of their investments. Beyond simple information purposes, **“consideration” of adverse impacts should be understood as their management including identification, prevention and mitigation**, which should be accompanied by relevant disclosures.

These indicators should be established via the revised SFDR delegated act, draw from the list of PAI indicators already established in the current SFDR Delegated Regulation,² considering meaningful differentiation depending on asset class, sectors or sustainability objectives.

For corporate investments, these PAI indicators should be consistent with the data points of the revised European Sustainability Reporting Standards (ESRS) for companies reporting under the Corporate Sustainability Reporting Directive (CSRD), and with the standard designed for voluntary sustainability reporting based on the VSME for companies outside of the scope of CSRD. These data points should also be accessible via other international corporate reporting frameworks to ensure data availability for companies operating in non-EU jurisdictions (see [Recommendation 1.5.](#)).

As an example, we suggest establishing the following PAI indicators across SFDR categories for corporate investments:

- Financed GHG emissions scope 1-3, carbon footprint and GHG intensity.
- Share of investee companies deriving revenues from the following:
 - Exploration, mining, extraction, distribution or refining of hard coal and lignite
 - Exploration, extraction, distribution or refining of oil fuels
 - Exploration, extraction, manufacturing or distribution of gaseous fuels

² European Commission, [Commission Delegated Regulation \(EU\) 2022/1288](#), 6 April 2022

- Any activities related to chemicals production if the undertaking is a manufacturer of pesticides and other (agro)chemical products.
- Share of investee companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO₂ e/kWh.
- Average amount of water consumed by the investee companies (in cubic meters) per million EUR of revenue of investee companies and weighted average percentage of water recycled and reused by investee companies.
- Average unadjusted gender pay gap across investee companies.
- Average gender diversity ratio in governance bodies of investee companies.

Some of these PAI indicators relate to the exposure of investee companies to activities that would be excluded under some of the SFDR categories (e.g. exposure to fossil fuel activities, which would be excluded as part of the minimum criteria of the “sustainable” category). Instead of having to consider the corresponding PAI indicators, the products would only have to flag these exclusions in relevant documentation.

This limited list of mandatory indicators and a list of additional indicators to be used on a voluntary basis should be defined as part of the revised SFDR delegated act to be adopted by the European Commission. The list of voluntary indicators should include indicators that could be used to determine additional environmental or social exclusions under the “sustainable” category (see [Recommendation 2.1.](#)).

3.3. Maintain currently existing Taxonomy disclosures for “sustainable” and “transition” products with environmental objectives.

Assessment of EC proposals: Eurosif welcomes the maintaining of Taxonomy-alignment disclosures for products categorised under the “sustainable” and “transition” categories with environmental objectives. The EC suggests that these can be limited to a disclaimer on whether the product is seeking to invest in Taxonomy-aligned activities.

Eurosif recommendations: require products with a stated environmental objective to disclose their percentage of Taxonomy-alignment rather than a disclaimer on whether they have a Taxonomy-alignment objective or not. This would both facilitate comparison between these products and ensure continuity with current requirements.

3.4. Introduce a limited set of exposure indicators and a disclaimer for non-categorised products to improve comparability and level the playing field between all products.

Assessment of EC proposals: apart from disclosures on the integration of sustainability risks, the SFDR framework does not require transparency requirements on the adverse impacts of investments for products that have no sustainability-related objective. This creates an unlevel playing field between products reporting against the SFDR and products that do not, which hinders end investors’ ability to compare sustainability characteristics across all financial products.

Eurosif recommendations: the SFDR review should establish a limited list of indicators to disclose the exposure of non-categorised financial products to activities that would be excluded under the SFDR framework. Similarly, as for categorised products, these indicators should be determined in the revised SFDR delegated act and be adapted to different asset classes.

For corporate investments, these indicators should be consistent with the data points of the revised European Sustainability Reporting Standards (ESRS) for companies reporting under the Corporate Sustainability Reporting Directive (CSRD), and with the standard designed for voluntary sustainability reporting based on the VSME for companies outside of the scope of CSRD. These data points should also be accessible via other international corporate reporting frameworks to ensure data availability for companies operating in non-EU jurisdictions (see [Recommendation 1.5.](#)).

As an example, we suggest establishing the following **exposure indicators** for non-categorised products for corporate investments:

- Share of investee companies deriving revenues from the following:
 - Any activities related to prohibited weapons.
 - Any activities related to the cultivation and production of tobacco.
 - Any activities related to fossil fuels (coal, oil and gas) - including a disaggregation of revenues derived from coal, oil and gas.
 - Any activities related to chemicals production if the undertaking is a manufacturer of pesticides and other (agro)chemical products.
- Share of investee companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO₂ e/kWh.
- Share of investee companies that have been involved in severe human rights incidents.

Non-categorised products should also include a dedicated disclaimer in precontractual documentation and in the Key Information Document for Packaged Retail and Insurance-based Investment Products (PRIIPS KID) flagging that the product does not comply with the criteria of the SFDR categories and does not have a sustainability-related objective or features.

3.5. Introduce consumer-friendly names and explanations for the SFDR categories, and describe their relevant features in the KID PRIIPS.

Assessment of EC proposals: the EC proposal establishes the names of the categories (“sustainable”, “transition”, and “ESG basics”) directly in SFDR proposal. While these names may be easy to understand for an audience that is familiar with sustainability-related investments, it is unclear whether these names would speak to a larger retail investor audience, especially without a clear explanation of the related objectives and features.

Additionally, the Key Information Document (KID) under PRIIPS is essential to ensure that retail investors have a clear understanding of financial products’ characteristics. The EC proposals to include additional disclosures related to the SFDR category of products to the KID PRIIPS is a

positive step forward. However, the suggested additions are extremely limited and would not provide retail investors with meaningful information on the products' objectives/features or positive and negative impacts on sustainability factors, which are easy to understand and may be critical to inform their choices.

Eurosif recommendations: set the names and a short explanation of each category's objectives and features at the technical level via the revised SFDR delegated act, following an EU-wide retail investor survey.

Additionally, consumer-facing disclosures in the KID PRIIPs should not only reflect the product's sustainability objective and indicator(s), but also whether the objective is set at the level of the portfolio (e.g., GHG emissions reduction by shifting the portfolio's composition) or at the level of the assets (e.g. assessing the GHG emissions reduction at the level of the companies that compose the portfolio). The KID PRIIPs should also include a short explanation of the product's footprint (exclusion strategy and potential additional negative screening, eventual exposure to harmful activities/sectors etc.) and handprint (positive screening, how the product remediates its adverse impacts, eventual credible sustainability-related engagement strategy etc.) as well as any other information deemed relevant to retail investors.

4. Achieve coherent implementation and consistency with other EU rules.

4.1. Further specify the content and implementation timeline of the revised SFDR delegated act to ensure a well-sequenced implementation for the framework.

Assessment of EC proposals: the current SFDR Delegated Regulation, which establishes, inter alia, the product templates and key Principle Adverse Impact (PAI) indicators used by financial market participants, was challenging for them to implement due to its complexity and the fact that it applied almost two years after the SFDR.

The European Commission suggests revoking the current SFDR Delegated Regulation and replace it with a new delegated act that will define many key aspects of the SFDR review, such as the indicators that may be used by financial market participants for assessing products' performance against sustainability-related objectives, principal adverse impact indicators, and the calculation methodology of the positive contribution criteria threshold.

However, consistently with our recommendations throughout this paper, additional issues should be addressed via this delegated act. Additionally, the EC proposal does not specify a timeline for its adoption, whereas proper sequencing with the application of the level 1 of SFDR will be key.

Eurosif recommendations: the scope of issues to address in the revised delegated act should be extended, to also include:

- Setting the categories' final names and short explanations of their characteristics to retail investors, following an EU-wide consumer survey (see [Recommendation 3. 5.](#)).
- Specific criteria adapted to different asset classes (see [Recommendation 1](#) and [Recommendation 2](#)).

- The thresholds as well as the calculation method for the “positive contribution” criteria tailored for different asset classes, including rules related to the potential fluctuations around this threshold and a dedicated treatment for general-purpose sovereign instruments in the “ESG basics” category (see [Recommendation 1.1.](#)).
- The definition of “proper justification” including a negative list of approaches that would not be eligible for the positive contribution criteria of each SFDR category (see [Recommendation 1.2.](#)).
- Additional criteria to define “socially sustainable” investments tailored for different asset classes (see [Recommendation 1.4.](#)).
- The minimum percentage of investments from the transition category with credible transition plans set at the asset level (see [Recommendation 2.2.b.](#)), the minimum percentage of portfolio that should be covered by a credible engagement strategy (see [Recommendation 2.2.c.](#)).
- The thresholds for Taxonomy-alignment “safe harbours” across the “sustainable” and “transition” categories (see [Recommendation 2.3.](#)).
- Principal adverse impact indicators that are adapted to different classes of assets, cover environmental (including climate) and social topics (see [Recommendation 3.](#)), and can be used by financial market participants to establish additional exclusions under the “sustainable” category (see [Recommendation 2.1.](#)).

In addition, financial market participants would welcome an explicit clarification of the implementation and sequencing of SFDR 2.0 framework, to ensure that both the revised SFDR and its updated delegated act **start applying at the same date.**

4.2. Improve consistency between SFDR and financial products distribution rules by clarifying how discretionary mandates can be integrated in the regime.

Assessment of EC proposal: we welcome the possibility for discretionary mandates offered to asset owners (e.g. pension funds) to remain eligible for SFDR categorisation via the new Article 9a for products combining other types of products. However, the European Commission (EC) suggestion to remove financial institutions providing related portfolio management services from the SFDR scope implies that other types of discretionary mandates, such as those offered to retail investors, would be excluded for the scope of SFDR.

This creates inconsistency issues with the MiFID/IDD rules on the assessment of sustainability preferences for retail investors and the distribution of financial products, which scope also covers portfolio management services. This means that discretionary mandates offered to retail investors could not benefit from the minimum criteria and transparency brought by the SFDR framework when assessing their sustainability preferences.

Eurosif recommendations: the SFDR review should either reinstate all portfolio management services providers in the scope or clarify the opt-in regime for discretionary mandates in SFDR to encompass all types of discretionary mandates, including those offered to retail investors.

4.3. Align relevant EU rules (BMR, SRD, ESG Rating Regulation) with the revised SFDR to ensure regulatory coherence.

Assessment of EC proposals: the SFDR is interconnected with many other EU regulations, and its review will also impact these interactions. This is notably the case of rules related to the distribution of financial products to retail investors and the assessment of their “sustainability preferences”, defined under the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD).

Additionally, the EC proposals entail additional transparency requirements regarding the use of estimates by financial market participants. While these disclosures are welcome, they will require access to information from the third parties that provide these estimates, or “ESG data providers”. However, these actors are currently not covered by transparency rules at the EU level.

Similarly, benchmarks are frequently used by investors for a wide range of financial products, including passive and active investments. While EU labels such as the Paris-Aligned and Climate Transition benchmarks have been a success and are referenced throughout the SFDR review, there are currently no wider rules underpinning the use of ESG-related claims by other benchmarks. This could lead to inconsistencies in naming and marketing between products categorised in the SFDR and the benchmarks they replicate or are managed in reference to.

Finally, the Shareholder Rights Directive (SRD) sets out the rights available to corporate shareholders throughout the EU, notably with regard to engagement with investee companies. It should be amended to reflect the provisions on investee companies’ engagement in the revised SFDR.

Eurosif recommendations: the SFDR should include recitals that explicitly recommend that the European Commission reflect its updated provisions in all relevant EU legislation. This should include:

- Revising the “sustainability preferences” and advisory process under MiFID/IDD in line with the SFDR criteria and its categories’ objectives and features.
- Amending the existing ESG Rating Regulation with transparency rules to include providers of ESG data.
- Establishing dedicated criteria that would condition the ability of benchmarks to make ESG claims, ensuring consistency with the SFDR criteria and disclosures.
- The review of the SRD, which proposal is expected in Q4 2026, should also remain consistent with the SFDR review, including with regard to the definition of “credible sustainability-related engagement strategy” (see [Recommendation 2.2.a](#)).

About Eurosif

Eurosif – the European Sustainable Investment Forum is the leading pan-European association promoting sustainable finance at the European level. Its membership is comprised of Sustainable Investment Fora (SIFs) from across Europe. Most of these SIFs have a broad and diverse membership themselves, including asset managers, institutional investors, index providers and ESG (Environmental, Social and Governance) research and analytics firms. Eurosif and its members are committed to the growth and development of sustainable finance and support the development of EU rules which are fit-for-purpose and facilitate the financial industry's contribution to a just transition.

Annex – summary table of suggested SFDR 2.0 rules per categories of products

Suggested amendments to the European Commission proposals appear **in bold**.

Names of categories	“Sustainable” Final name and description to be determined in the revised SFDR delegated act following an EU-wide retail investor survey.	“Transition” Final name and description to be determined in the revised SFDR delegated act following an EU-wide retail investor survey.	“ESG basics” Final name and description to be determined in the revised SFDR delegated act following an EU-wide retail investor survey.	Non-categorised products
Tailored treatment of specific criteria.	Across SFDR categories: criteria and calculation methods to be tailored to different asset classes.			/
Minimum social and governance safeguards	For any product categorised under SFDR, investments must be in line with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, and the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.			/
Positive contribution criteria	Minimum threshold of X% of investments. Threshold to be determined in the revised SFDR delegated act at the same time as calculation method.	Minimum threshold of X% of investments. Threshold to be determined in the revised SFDR delegated act at the same time as calculation method.	Minimum threshold of X% of investments. Threshold to be determined in the revised SFDR delegated act at the same time as calculation method and providing an adapted treatment to general-	Not applicable.

	<p>List of approaches for the positive contribution threshold,</p> <p>+ any approach provided “proper justification” is provided based on widely recognised standards, frameworks and labels as defined in the revised SFDR delegated act including a list of approaches that would not be eligible.</p>	<p>List of approaches for the positive contribution threshold, + any approach provided “proper justification” is provided based on widely recognised standards, frameworks and labels as defined in the revised SFDR delegated act including a list of approaches that would not be eligible.</p> <p>+ a minimum X% of investments with credible transition plans set at the asset level.</p> <p>Threshold to be determined in the revised SFDR delegated act and revised over time.</p>	<p>purpose sovereign instruments.</p> <p>List of approaches for the positive contribution threshold, + any approach provided “proper justification” is provided based on widely recognised standards, frameworks and labels as defined in the revised SFDR delegated act including a list of approaches that would not be eligible.</p>	
Engagement	<p>Voluntary application of a credible sustainability-related engagement strategy cumulatively with the “positive contribution” approach(es) selected, and provided all the other</p>	<p>Where relevant considering the asset class and investment approach, mandatory application of a credible sustainability-related engagement strategy to a minimum of X% of the portfolio (in terms of AuM or number of</p>	<p>Voluntary application of a credible sustainability-related engagement strategy cumulatively with the “positive contribution” approach(es) selected, and provided all the</p>	/

	criteria from this category are respected.	companies), cumulative with the other category's criteria.	other criteria from this category are respected.	
Minimum exclusions	<p>Paris-Aligned Benchmark exclusions</p> <p>+ additional exclusions of companies that develop new projects for the exploration, extraction, distribution or refining of fossil fuel or do not have a plan to phase-out from hard coal or lignite:</p> <p>+ additional Environmental or Social exclusion(s) to be selected by FMPs based on material PAI indicator(s).</p>	<p>Climate Transition Benchmark exclusions</p> <p>+ companies that derive 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite.</p> <p>+ additional exclusions of companies that develop new projects for the exploration, extraction, distribution or refining of fossil fuel or do not have a plan to phase-out from hard coal or lignite.</p>	<p>Climate Transition Benchmark exclusions</p> <p>+ companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite.</p>	/
Safe harbours	<p>Taxonomy alignment of X% or more of investments – based on turnover.</p> <p>Thresholds to be determined in the revised SFDR delegated act and revised over time.</p>	<p>Taxonomy alignment of X% or more of investments, with aim to improve by X% over a specified time period (max. 5 years) – based on turnover.</p> <p>or</p> <p>Taxonomy-alignment of X% based on CapEx.</p>	Not applicable.	Not applicable.

		Thresholds to be determined in the revised SFDR delegated act and revised over time.		
Additional disclosures	<p>If environmental objective: disclosure of % of Taxonomy-alignment.</p> <p>If impact objective, application of impact criteria requiring disclosure of:</p> <ul style="list-style-type: none"> - the intended impact(s) in terms of specified environmental or social objectives, underpinned by a pre-set impact theory; and - provisions to measure, manage, and report on the desired impact, including in terms of investments by the financial product and how investor contribution is ensured in the financial product. 	<p>If environmental objective: disclosure of % of Taxonomy-alignment.</p> <p>If impact objective, application of impact criteria requiring disclosure of:</p> <ul style="list-style-type: none"> - the intended impact(s) in terms of specified environmental or social objectives, underpinned by a pre-set impact theory; and - provisions to measure, manage, and report on the desired impact, including in terms of investments by the financial product and how investor contribution is ensured in the financial product. 	<p>Disclaimer that the product does not respect the minimum criteria of the “sustainable” or “transition” categories and offers a different level of ambition.</p>	<p>Disclaimer that the product does not seek a sustainability-related objective, is not categorised under SFDR and does not respect its criteria.</p>

Adverse impact indicators	<p>Limited common set of Principal Adverse Impact (PAI) indicators tailored to different asset classes.</p> <p>+ Exposure indicators when relevant considering minimum exclusions of the category.</p> <p>+ voluntary PAI indicators if material.</p>			<p>Limited common set of exposure indicators tailored to different asset classes. + voluntary PAI indicators if material.</p>
Naming and marketing rules	Sustainability-related terms & marketing claims in line with the product’s objective.	Sustainability-related terms & marketing claims in line with the product’s objective.	<p>Only ESG-related terms & marketing claims, so excluding terms derived from the base words “sustainability” and “transition”, and clearly stating the minimum/basic/limited sustainability-related credentials of the product.</p>	Prevented from using any sustainability-related terms & marketing claims.