

SFDR REVIEW: EUROSIF PRIORITIES FOR THE TRILOGUE NEGOTIATIONS



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Summary of recommendations

Eurosif welcomes the general direction of the EU institutions' discussions on the SFDR review.

Both the Council of the EU and the European Parliament support provisions that are expected to bring significant improvements to the current framework. These include establishing three distinct product categories underpinned by explicit criteria, dedicated rules for "impact" products, limiting the use of sustainability-related terms to categorised products and introducing a disclaimer for non-categorised products that disclose ESG information.

However, several key issues remain that must be resolved during the trilogue negotiations. To ensure that the final framework is **credible, usable** and helps to **scale up investment** for the transition to a sustainable economy, Eurosif recommends that co-legislators address the following points:

1. **Establish strict safeguards on the professional investor opt-out to prevent greenwashing.** Limit the possibility for an opt out for Alternative Investment Funds exclusively targeting professional investors. Prevent opting-out products from using sustainability-related terms in names and marketing and require a clear disclaimer.
2. **Maintain robust transition category exclusions to preserve its credibility.** Require eligible companies to: i. have at least 20% Taxonomy-aligned Capex; ii. invest more Capex in Taxonomy-aligned activities than in fossil fuel expansion projects; iii. phase out coal-based power generation; and iv. implement a Scope 1 and 2 GHG emissions reduction strategy.
3. **Tailor SFDR criteria to different asset classes and develop criteria for social objectives.** Mandate delegated acts to adapt criteria and indicators for private assets, real assets and products pursuing social objectives to support implementation and usability.
4. **Establish meaningful product- and entity-level disclosures to improve transparency.** Require a limited set of comparable PAI indicators as well as clear engagement and Taxonomy-alignment disclosures across all three categories. Establish targeted entity-level reporting on assets under management and products categorised under SFDR.
5. **Prevent the use of safe harbours to bypass SFDR criteria.** Require products using EU climate benchmark safe harbours to comply with the exclusions and disclosure requirements of their respective categories.
6. **Map credible international standards meeting SFDR criteria.** Mandate further guidance with a clear list of international frameworks and standards meeting SFDR 2.0 requirements that can be referenced when categorising products.
7. **Retain a "Do No Significant Harm" principle for the sustainable category.** Introduce a proportionate safeguard incentivising market participants to go beyond minimum exclusions to ensure the robustness of the sustainable category.

Detailed Eurosif positions for trilogue negotiations

1. Establish strict safeguards for the professional investor opt-out to prevent greenwashing.

Eurosif is concerned that an opt-out could lead to market fragmentation and weaken trust in the SFDR framework, undermining its expected benefits for Single Market structure and transparency.

Assessment of co-legislators' proposals: without appropriate safeguards, the opt-out proposed in both co-legislators' texts is likely to create two parallel markets for financial products. Depending on whether they target retail or professional investors, similar sustainability-related terms may cover products with vastly different underlying features. This may confuse smaller professional investors (such as local government funds) which lack sustainability expertise, potentially leading to greenwashing. There is also a risk that certain opt-out products could be indirectly accessed by retail investors after being initially sold to a professional investor, for example through structures such as unit-linked insurance products.

To prevent this, the final text should maintain **a clear separation between categorised and opt-out products**, even for funds exclusively targeting professional investors, via restrictions on the use of sustainability terms and a dedicated disclaimer. Given its potential impact on sustainable investments markets, the **opt-out should also be assessed as part of the SFDR 2.0 review clause** to consider whether it should be removed in the future.

Key recommendations:

- Restrict the opt-out for Alternative Investment Funds exclusively targeting professional investors, **as proposed by both the European Parliament and the Council of the EU.**
- Prevent “opt-out funds” from using sustainability-related terms in their names and marketing communications and require a disclaimer in precontractual documentation, **as suggested by the European Parliament.**
- Explicitly prevent “opt-out funds” from being directly or indirectly accessed by retail investors through any fund structure.
- In addition to these safeguards, mandate the European Commission to assess the relevance of maintaining the opt-out as part of the SFDR 2.0 review clause, after analysis of its impacts on market fragmentation and greenwashing risks.

2. Maintain robust transition category exclusions to preserve its credibility.

The transition category is a key aspect of the revised SFDR framework and is central to supporting the EU's transition objectives. Its criteria should support financing of real-world change and avoid paper decarbonisation or “transition washing”.

Assessment of co-legislators' proposals: a 20% Capex Taxonomy-alignment threshold and requirement to have in place a Scope 1 and 2 GHG emissions reduction strategy are present in both co-legislators' texts and are likely to form the basis of a compromise for this category's exclusions. **Although useful, these requirements are insufficient to demonstrate credible transition commitments.**

We strongly support complementing these minimum exclusions with the European Parliament's additional safeguards, including **requiring more Capex investment in Taxonomy-aligned activities than in fossil fuel expansion projects, and phasing out coal-based power generation.**

Should these additional safeguards be included, we also recommend **not penalising companies that currently have exposures to coal-related activities** but that they implement credible transition trajectories for phase-out, as suggested by the Council of the EU. On this point, and while we acknowledge that co-legislators have not retained these proposals, we also reiterate that when transition products claim to invest in transitioning companies, there should be **a clear requirement for these companies to implement credible climate transition plans, including credible reduction targets covering Scope 1 to 3 GHG emissions.**

Key recommendations:

- Retain the 20% Capex Taxonomy-alignment criterion and requirement to have a scope 1 and 2 GHG emissions reduction strategy **present in both co-legislators' texts.**
- Cumulatively with the criteria above, exclude companies investing more Capex in fossil fuel expansion than in Taxonomy-aligned activities, and companies using coal for power generation without a plan to phase out these activities, **as proposed by the European Parliament.**
- Provided the abovementioned safeguards are included, remove the exclusion for companies that currently derive 1% or more of their revenues from hard coal or lignite **as suggested by the Council of the EU.**

3. Tailor SFDR criteria to different asset classes and develop criteria for social objectives.

The proposed SFDR 2.0 categorisation criteria were primarily designed for listed assets and focus exclusively on climate and environmental topics.

Private assets and real assets

Assessment of co-legislators' proposals: despite being referenced in the Council's position, neither of the co-legislators' texts explicitly acknowledges the need to adopt tailored rules for different asset classes (including private and real assets) and product life cycles. This includes specific thresholds, calculation methods, exclusions and indicators.

The **lack of dedicated rules will create usability challenges** and may prevent market participants from categorising and promoting the characteristics of funds that contribute significantly to the EU's sustainability and transition objectives.

We encourage co-legislators to build on the Council's text, which includes definitions for private and real assets, to explicitly mandate the European Commission and European Supervisory Authorities (ESAs) to develop tailored criteria at Level 2.

Key recommendation:

- Empower the European Commission and the ESAs to tailor criteria, calculation methods, and indicators to different asset classes in the revised SFDR delegated act.

Financial products with social objectives

Assessment of co-legislators' proposals: both co-legislators' texts mention that **categorised products can pursue social objectives, but they provide no dedicated criteria**, such as eligible positive contribution approaches or adapted exclusions. This leaves a significant regulatory gap and creates uncertainty for market participants wishing to develop these products.

Co-legislators should include a clear mandate for these dedicated criteria to be developed at Level 2 or via specific European Commission guidance.

Key recommendation:

- Require dedicated criteria for socially sustainable investments to be developed through the revised SFDR Delegated Act or via European Commission guidance.

4. Establish meaningful product- and entity-level disclosures to improve transparency.

Disclosure requirements should be streamlined without undermining the comparable information needed by end investors and supervisors.

Product-level Principal Adverse Impact (PAI) disclosures

Assessment of co-legislators' proposals: PAI indicators are essential for financial market participants to guide their investment decisions and their engagement with investee companies. We welcome the willingness of both co-legislators to improve the initial European Commission proposals, with the Council increasing the number of indicators for the sustainable and transition categories, and the European Parliament establishing minimum common indicators across all three categories.

To provide the flexibility for market participants to establish indicators corresponding to products' specific objectives while maintaining comparability both within and across SFDR categories, both co-legislators' approaches should be merged, to require **three PAI indicators for all three product categories, including a limited common set across categories**.

Key recommendations:

- Require the mandatory disclosure of at least three PAI indicators, **as suggested by the Council of the EU**, but for each of the three SFDR categories.
- Set mandatory PAI indicators for each category **as suggested in the European Parliament's proposal**, including at least:
 - Biodiversity and human rights indicators for the sustainable category;
 - Fossil fuel exposure and GHG emissions indicators for the transition category;
 - A fossil fuel exposure indicator for the ESG basics category.
- Leave flexibility for market participants to select the remaining mandatory PAI indicators (and additional ones on a voluntary basis) depending on their products' sustainability-related objective and strategy, from a list to be drawn in the revised SFDR delegated act.

Product-level disclosures on engagement strategies

Assessment of co-legislators' proposals: corporate engagement is central to many market participants' sustainability strategies. We strongly welcome that credible sustainability-related

engagement strategies are maintained in both co-legislators' texts as a possible additional investment approach to contribute to a transition objective. We also support the clear requirement for such credible strategies to identify the changes sought, the relevant targets and milestones, the progress achieved, and potential escalation measures.

In addition to this, **we support the European Parliament's suggestions to establish product-level comply-or-explain engagement disclosures across all three categories.** These would complement the proposed criteria for the transition category and would be a proportionate way to provide material information to end investors, while enabling market participants to promote the sustainability-related value they add across the framework.

Key recommendation:

- Require comply-or-explain sustainability-related engagement disclosures at product level for all three categories, **in line with the European Parliament's suggestions**, covering expected outcomes, targets, progress, and escalation conditions.

Product-level Taxonomy-alignment disclosures

Assessment of co-legislators' proposals: both co-legislators maintain comply-or-explain Taxonomy-alignment disclosures for sustainable and transition products with environmental objectives. The European Parliament adds a specific Taxonomy-alignment disclosure requirement for products from the ESG basics category.

However, this approach would lead to a loss of information compared to the current requirements, whereby Taxonomy-alignment disclosures at product level are mandatory for any product with an environmental objective. They provide a science-based metric that facilitates comparisons between products by end investors. **The current mandatory Taxonomy-alignment disclosures should be maintained for products with environmental objectives across all three SFDR categories.**

Key recommendation:

- Retain the current mandatory Taxonomy-alignment disclosures for products with environmental objectives across all three SFDR categories.

Website disclosures on categorised assets under management and products

Assessment of co-legislators' proposals: both co-legislators propose removing entity-level PAI and remuneration-policy disclosures. Compounded with the exemption of reporting Assets under Management (AuM) from the European Sustainability Reporting Standards (ESRS), the complete removal of entity-level reporting under SFDR risks creating a regulatory blind spot.

As suggested by the European Parliament, these disclosures should therefore be replaced by annual website reporting on assets and products categorised under SFDR 2.0. At very limited cost for market participants, this proposal would significantly improve transparency on how they manage sustainability across their products range and managed assets, to the benefit of end investors and supervisors.

Key recommendation:

- Establish revised annual entity-level disclosures on websites, covering the proportion of AuM and products categorised under each SFDR 2.0 category, **as suggested in the European Parliament's position.**

5. Prevent the use of safe harbours to bypass SFDR criteria.

While we support the principle of safe harbours to facilitate the categorisation of ambitious financial products, it is essential that they remain consistent with the objectives and criteria of the SFDR categories.

Assessment of co-legislators' proposals: both co-legislators' texts allow products that use EU climate benchmark safe harbours to bypass the exclusions and disclosures applying to other products within the same category.

Co-legislators' proposals would create a **loophole that may lead to greenwashing** and establish an uneven playing field between categorised products. This damaging loophole must be addressed in the final text.

Key recommendation:

- Require products managed with reference to or replicating Paris-Aligned/Climate Transition Benchmarks to also comply with the relevant category's minimum exclusions and disclosure requirements, including PAI indicators.

6. Map credible international standards meeting SFDR criteria.

Financial market participants generally invest in many companies located outside of the EU and will need clear guidance to ensure products including these exposures can comply with the SFDR 2.0 categories' criteria.

Assessment of co-legislators' proposals: while several of the proposed SFDR 2.0 criteria refer directly to compliance with EU regulations, neither co-legislator's text clarify **how and to which extent non-EU standards** (e.g. international reporting frameworks, non-EU taxonomies...) **could be referenced when categorising products**.

This gap is likely to create implementation challenges; **guidance providing a specific list and mapping of international standards** should be developed by the European Commission before SFDR 2.0 becomes applicable to improve market certainty.

Key recommendation:

- Mandate the European Commission to establish guidance including a mapping and listing of credible international standards that may be referenced for SFDR categorisation purposes, including non-EU taxonomies and frameworks relating to transition plans, science-based targets, or sovereign sustainability.

7. Retain a “Do No Significant Harm” principle for the sustainable category.

SFDR 2.0's exclusions 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.

Assessment of co-legislators' proposals: in both co-legislators' texts, the proposed exclusions for the sustainable category cover selected climate and social issues but **do not address the full range of potential environmental and social harms**, including biodiversity impacts.

The absence of the DNSH principle creates a gap with current market practices. Despite implementation challenges, this principle was widely adopted and has proven effective in ensuring that current so-called “Article 9” products do not cause significant harm to sustainability objectives across a wide range of environmental, social and governance factors.

While we acknowledge that co-legislators do not support this approach, **we encourage the retention of a Do No Significant Harm (DNSH) principle**, to be developed via dedicated European Commission guidance. Its replacement by these limited exclusions could make the new sustainable category less robust than existing market practice.

Key recommendation:

- Retain a proportionate Do No Significant Harm principle for the sustainable category, with detailed requirements via dedicated guidance by the European Commission.