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SFDR Legislative Proposal: Key Changes at a Glance

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Executive Summary

- Since March 2021, the **Sustainable Finance Disclosures Regulation** (SFDR) has outlined the requirements for financial market participants to disclose sustainability-related information to investors, with the objective of enabling these market participants to make informed decisions regarding their investments.
- Despite improving ESG-related transparency, the **SFDR** is characterized by **significant operational complexity** and **limited usability of disclosures**. This has resulted in **increased compliance costs** and interpretative difficulties, undermining investors' capacity to meaningfully assess and compare ESG-oriented financial products.
- In light of this evidence, in **November 2025**, the European Commission proposed a **revision of the SFDR**, the principal changes of which are presented in the present publication.

At a Glance

Keywords: ESG Disclosure, SFDR, Funds

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Introduction

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The **SFDR** requires financial market participants to **disclose sustainability information to support investor decision-making**. However, its **complexity** and limited usability have raised **compliance costs** and made it difficult for investors to assess and compare ESG financial products.

27 Nov 2019
SFDR Adoption
Regulation (EU) 2019/2088

29 Dec 2019
SFDR Enters into Application

10 Mar 2021
SFDR Disclosure Requirements Application
at entity level[1] and in pre-contractual documents

6 Apr 2022
Adoption of RTS under SFDR

1 Jan 2023
Commission Delegated Regulation Enters into Application

14 Sep 2023
Commission Consultation on the SFDR Implementation

3 May 2024
Publication of the Summary Report of Consultation on the SFDR Implementation

20 Nov 2025
Legislative Proposal for a SFDR Revision

[1] Portfolios managed by credit institutions and investment firms, Alternative Investment Funds (IAFs) and UCITS, Insurance-based Investment Products (IBIPs), pension products and workplace pension products regulated under the Institutions for Occupational Retirement Provision (IORP) directive and Pan-European Personal Pension Product (PEPP) Regulation.

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SFDR Revision - Objectives

- **Preserving the integrity and transparency of the EU single market for sustainable finance** through:
    - clear and consistent requirements that facilitate investors' understanding and comparison of the opportunities offered by sustainable financial products;
    - measures to reduce the risk of *greenwashing*;

- **Strengthening the competitiveness of the European financial sector** through:
    - conditions that facilitate business activities;
    - better targeting of capital towards investments that support sustainable and lasting growth in Europe.

- **Simplifying the regulatory framework** by reducing administrative and sustainability-related reporting requirements for financial market participants and financial advisors;

- **Contributing to the achievement of the objectives of the European Green Deal** by supporting:
    - climate neutrality according to the Climate Law;
    - a transition to a sustainable and circular economy supported by innovation;
    - the achievement of the United Nations Sustainable Development Goals (SDGs).

- **Help strengthen access to financing** for strategic sectors, such as **defense and space**, in line with the Commission's guidelines on the application of the EU's sustainable financial framework.

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Impact Assessment

Preferred Solutions

- **Eliminate most entity-level disclosures** under the SFDR
- Substantially **decrease product-related disclosures**
- **Implement a three-tier ESG product classification system**
- Streamline and reduce the burden of **requirements** for financial market participants
- Support the **provision of essential and comparable information** to investors (especially retails) regarding categorised products

- **Financial market participants** support removing SFDR entity-level disclosure requirements
- Views from **NGOs** and **national authorities** are more mixed
- Most **stakeholders** agree product-level disclosures require revision, emphasizing the need for more meaningful and comparable sustainability indicators

Impact of the Preferred Solutions

- **The removal of entity-level disclosures** would alone eliminate burdens estimated to account for 25% of the costs under current rules
- The **three-tiered categorization** would enhance trasparency, reduce regulatory fragmentation and improve comparability, thereby amplifying sustainable investment and capital attraction for the EU market

- For the **majority of market participants,** particularly **funds**, costs would be minimized as the framework builds upon existing practices, with initial outlays offset by long-term efficiency gains
- For the other sectors, notably **insurance** and **pension products,** short-term implementation costs could arise but can be mitigated through a phased application

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SFDR Proposal

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The **explanation** of the Commission **proposal** that amends the **SFDR** is provided below.

Scope Review	Focus on Financial Market Participants and Introduction of Sustainability-Related Financial Product Categories.
Removal of Article 2a SFDR	Elimination of Empowerment for ESAs to Develop Regulatory Technical Standards on 'Do No Significant Harm' Principle and Non-Essential Implementing Measures ('De-prioritisation List’).
Elimination of Entity-Level Disclosure Requirements	Removal of disclosures in Articles 4 and 5 regarding principal adverse impacts and remuneration policies, consistent with the de-prioritisation list.
Transparency Restrictions for Non-Categorised as Sustainability-related Financial Products	Introduction of specific transparency requirements for non-categorised products, following the creation of categories for “sustainability-related financial” products. To protect investors, non-categorised products may include information on how they consider sustainability factors in their pre-contractual and periodic disclosures, but such information must not be a central element or constitute sustainability-related claims, which are reserved for categorised products.

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Creation of Categories for Financial Products with Transition, ESG Basics, or Sustainable Features

Introduction of categories for financial products based on their transition (Article 7), ESG fundamentals (Article 8), or sustainable features (Article 9), outlining the main criteria for qualification, exclusions on investments, and required disclosures to investors. The revised Articles also repeal previous empowerments in line with the de-prioritisation list. The order of the Articles maintains continuity with the current usage of Articles 8 and 9 to refer to products with distinct environmental and social characteristics.

Transition Category (Article 7)

- Financial products with a strong **transition ambition**, allocating at least **70% of investments to measurable transition objectives** based on verified standards and established methodologies.
- Also includes products with **portfolio-level transition commitments**, e.g., gradually reducing portfolio-financed emissions, provided underlying investments align with the product's transition goals.
- **Excludes activities deemed harmful** to environmental or social well-being, while allowing investment in companies at different stages of their transition journey.
- **Prohibits new projects** involving oil, gas, or coal, unless a clear phase-out strategy exists.
- As with sustainable products, instruments in this category must:
  - **Identify and disclose principal adverse impacts** of investment decisions on sustainability factors;
  - **Explain measures** taken to mitigate those impacts.

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ESG Basics Category (Article 8)

- Financial products whose **investment strategy incorporates selected sustainability factors**, catering to market demand and investor preference for products avoiding harmful activities.
- Must allocate at least **70% of the portfolio to assets aligned** with the sustainability criteria defined by the fund's investment strategy, verified through relevant sustainability metrics.
- Eligible strategies include:
  - **Outperforming a reference benchmark** on ESG ratings or sustainability indicators.
  - **Applying established sustainable or transition standards**.
  - **Favoring issuers with a proven positive track record** on specific sustainability factors.
- **Must exclude activities considered harmful**, in line with EU Climate Benchmarks and ESMA guidelines, including:
  - Prohibited weapons (per upcoming amendment to EU Regulation 2020/1818)
  - Tobacco cultivation and production
  - Violations of UN Global Compact principles or OECD Guidelines for Multinational Enterprises
  - Hard coal and lignite

Sustainable Category (Article 9)

- Financial products investing in **sustainable companies, assets, or activities that contribute positively** to environmental and/or social objectives.
- Must allocate at least **70% of the portfolio to such investments** to demonstrate a clear positive contribution to the transition.
- Investments selected based on proven standards and tools, including:
  - EU Paris-aligned Benchmarks (Regulation (EU) 2016/1011)
  - EU Taxonomy for sustainable activities (Regulation (EU) 2020/852)
  - Specific instruments under Regulation (EU) 2023/2631
  - Operations backed by **relevant EU budgetary guarantees or financial instruments**
- **Exclusion criteria stricter than other categories**, covering the full fossil fuel value chain, including:
  - Activities related to oil and gaseous fuels
  - Power generation exceeding 100g CO_2e/kWh
  - Companies developing new oil, gas, hard coal, or lignite projects, or lacking a phase-out plan
- Products must **identify, disclose, and explain** actions to address **Principal Adverse Impacts (PAIs)** on sustainability factors. Alternative disclosure approaches are allowed if better suited to the impact's nature.

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Financial Products Investing in or Combining Categorised Products	Introduction of rules clarifying when such products may qualify under a specific category and establishing transparency requirements for non-categorised products investing in categorised financial products below the qualifying thresholds, including disclosure of the share of those investments.
Financial Market Participants' Website Disclosures	Modification of the requirements for information published on websites to account for the updated scope, the establishment of classifications for 'sustainability-related financial products,' and harmonization with the deprioritisation list.
Periodic Disclosures for Financial Market Participants	Amendment of the requirements for information published on an annual basis to account for the updated scope, the establishment of classifications for 'sustainability-related financial products,' and harmonization with the deprioritisation list.
Principles for Financial Market Participants	Introduction of principles governing the use of data and estimates for the purposes of this Regulation, along with stipulations on the information to be furnished to investors upon request concerning relevant data sources and the assumptions underpinning estimates.

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Marketing Communications and Naming Rules	The revisions to Article 13 align marketing and naming rules with the updated regulatory scope, new sustainability-related product categories, and the de-prioritisation list. They restrict sustainability claims in names and marketing to categorised products, except for Article 9a non-categorised products, which may make such claims in marketing only. Additionally, the amendments incorporate specific disclosure requirements from Regulation (EU) 2024/3005 for the use of ESG ratings in promotional materials, mandating their publication on websites.
Optional Exemptions for Specific Products	Inclusion of discretionary exclusions for particular product types, notably closed-ended instruments established prior to the revised Regulation's application, coupled with a clarification that the establishment of 'sustainability-related financial product' classifications does not affect labelling schemes featuring supplementary transparency, governance, and other requirement features.
Transitional Provisions and Commission Empowerments	Inclusion of transitional arrangements for insurance and pension products not subject to the ESMA fund name guidelines, alongside delegated authority for the Commission to define criteria for investments contributing to specific transition or sustainability objectives or integrating sustainability factors for product categorisation, and to specify related disclosure requirements for such categorised financial products.

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Conclusion and Key Takeaways

Conclusion and Key Takeaways

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The regulator's attempt to tackle **greenwashing** through mandatory disclosure has proven **ineffective**. The Sustainable Finance Disclosure Regulation (**SFDR**) has **failed** to provide investors with **clear** and **meaningful information**, and consequently, it has not significantly influenced their investment decisions.

1. The SDFR did not correct investor's perceptions of the degree of sustainability of investment funds, as it failed to provide genuinely new disclosure.

2. The disclosure provided under SFDR framework did not facilitate investors' understanding, since funds generally reported only their classification under the so-called "**Article 6**", "**Article 8**" and "**Article 9**", without clearly explaining the substantiative meaning of these distinction.

3. Market surveys indicate that when classifications are more self-explanatory, investors tend to shift towards more sustainable funds. This reinforces the evidence that investors are sensitive to sustainability considerations; however, the SFDR has not ben able to adequately support investor's decision-making process.

The **SFDR 2.0 proposal** adopts **a clearer classification convention** (namely, "**ESG basics**", "**Transition**" and "**Sustainability**"), in line with the evidence emerging from market surveys.
However, the clarity and simplicity of the Thresholds, exclusions, sustainability indicators and reporting templates will be decisive in ensuring that disclosure are accessible to investors and in affectively addressing greenwashing practices.

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