

SFDR 2:0

An overview of the proposed changes

November 2025



On 20 November 2025, the European Commission (EC) published its legislative proposal for the amendment of the EU Sustainable Finance Disclosure Regulations (SFDR 2.0). SFDR 2.0 proposes fundamental changes to the way that certain financial products and financial market participants (FMPs) in the European Union market, disclose and report sustainability-related matters to investors.

Key developments

- 1 Introduces a product categorisation regime, with three new categories
- 2 Definition of "sustainable investments" has been deleted
- 3 FMPs' entity-level principal adverse impacts (PAI) disclosure requirements have been deleted
- 4 Certain grandfathering and transition provisions are included

The EU Sustainable Finance Disclosure Regulation (SFDR) came into force in stages from March 2021. The SFDR aimed to improve the transparency and comparability of sustainability-related claims made by financial products managed or marketed in the EU. In 2023, the EC launched a broad consultation on the effectiveness of the SFDR. Following further engagement with the industry, supervisory authorities and Member States, the EC has published its legislative proposal for SFDR 2.0, which sets out fundamental changes to the SFDR framework, impacting the requirements that apply to both in-scope FMPs and financial products. The proposed changes to the SFDR framework are intended to simplify and reduce the sustainability-related administrative and disclosure requirements for FMPs, whilst improving investors' ability to understand and compare sustainability-linked financial products and protecting against misleading sustainability-related claims.

The key changes proposed by SFDR 2.0 are discussed in further detail below.

Product categorisation

At the product level, SFDR 2.0 moves away from a disclosure-based system to a product categorisation system by introducing three new product categories (collectively called "sustainability-related financial products").

The three new categories replace the existing disclosure-based requirements currently set out in Article 7 (*Transparency of adverse sustainability impacts at financial product level*), Article 8 (*Transparency of the promotion of environmental or social characteristics in pre-contractual disclosures*) and Article 9 (*Transparency of sustainable investments in pre-contractual disclosures*) of the SFDR, and have the following features:

1. **Transition category** (new Article 7):

- (a) 70% of investments must meet a clear and measurable transition objective related to sustainability factors (including environmental or social transition objectives), in accordance with the binding elements of the product's investment strategy, measured using appropriate sustainability-related indicators;
- (b) apply: (i) the exclusions set out in paragraphs (a) to (d) of the Paris-aligned benchmark (PAB) exclusions¹ to investments in companies; and (ii) exclude investments in companies that: (x) develop new projects for the exploration, extraction, distribution or refining of hard coal and lignite, oil fuels or gaseous fuels; or (y) develop new projects for, or do not have a plan to phase out from, the exploration, mining, extraction, distribution, refining or exploitation of hard coal or lignite for power generation; and
- (c) identify and disclose the PAI of their investments on sustainability factors and explain the actions taken to address those impacts. FMPs may choose to comply with this requirement, fully or partly, by using appropriate sustainability-related indicators.

Products that replicate or are managed by reference to an EU climate transition benchmark or EU Paris-aligned benchmark (EU Climate Benchmarks), in each case that complies with applicable requirements, will be considered to meet the requirements set out above.

Investments that may be used to reach the 70% threshold include investments: (i) in portfolios that replicate or are managed by reference to EU Climate Benchmarks; (ii) economic activities with EU Taxonomy-alignment (including investments in transitional economic activities and in EU Taxonomy-eligible economic activities that meet certain conditions); (iii) with a credible transition plan for one or more sustainability factors; (iv) with credible science-based targets; (v) with a credible sustainability-related engagement strategy targeting specific changes within defined milestones, in combination with investments referred to under (i) to (iv) above or (viii) below; (vi) that may be made by products categorised under new Article 9 of SFDR 2.0, in combination with any of the above investments; (vii) investments with a credible transition target set at portfolio level; and

¹ The PAB exclusions are set out in Article 12(1) of Commission Delegated Regulation (EU) 2020/1818 and require the exclusion of companies (a) involved in any activities related to controversial weapons; (b) involved in the cultivation and production of tobacco; (c) that benchmark administrators find in violation of the United Nations Global Compact principles (UNGC) or the Organisation for Economic Cooperation and Development Guidelines for Multinational Enterprises (OECD Guidelines); (d) derive $\geq 1\%$ of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (e) derive $\geq 10\%$ of their revenues from the exploration, extraction, distribution or refining of oil fuels; (f) derive $\geq 50\%$ of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; and (g) derive $\geq 50\%$ of their revenues from electricity generation with a GHG intensity of more than 100g CO₂ e/kWh.

(viii) other investments that credibly contribute to the transition that can be properly justified as such. Where a product aims to meet a clear and measurable transition towards the climate change mitigation objective, the plans, targets, strategies and contributions referred to in (iii), (iv), (v), (vii) and (viii) above will be compatible with the transition to a sustainable economy and with limited global warming in line with the Paris Agreement and the objective of achieving climate neutrality.

2. **ESG-basics category** (new Article 8):

- (a) 70% of investments integrate "sustainability factors" in accordance with the binding elements of the product's investment strategy, measured using appropriate sustainability-related indicators. "Sustainability factors" means environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters; and
- (b) apply the exclusions set out in paragraphs (a) to (d) of the PAB exclusions to investments in companies.

Investments that may be used to reach the 70% threshold include investments: (i) with an ESG rating that outperforms the average rating of the investment universe or the reference benchmark; (ii) that outperform the average investment universe or reference benchmark on a specific appropriate sustainability indicator; (iii) that favour undertakings or economic activities with a proven positive track record in terms of processes, performance or outcomes related to sustainability factors; (iv) that combine investments that may be made by products categorised under new Articles 7 or 9 of SFDR 2.0, together with any of the above investments; and (v) integrating sustainability factors beyond consideration of sustainability risks and that can be properly justified.

3. **Sustainable category** (new Article 9):

- (a) 70% of investments must meet a clear and measurable objective related to sustainability factors (including environmental and social objectives) in accordance with the binding elements of the product's investment strategy, measured using appropriate sustainability-related indicators;
- (b) apply: (i) the full PAB exclusions to investments in companies; and (ii) exclusions against investments in companies that: (x) develop new projects for the exploration, extraction, distribution or refining of hard coal and lignite, oil fuels or gaseous fuels; or (y) develop new projects for, or do not have a plan to phase out from, the exploration, mining, extraction, distribution, refining or exploitation of hard coal or lignite for power generation; and
- (c) identify and disclose the PAI of their investments on sustainability factors and explain the actions taken to address those impacts. FMPs may choose to comply with this requirement, fully or partly, by using appropriate sustainability-related indicators.

Investments that may be used to reach the 70% threshold include investments: (i) in portfolios replicating or managed by reference to an EU Paris-aligned benchmark; (ii) in economic activities aligned with the EU Taxonomy; (iii) in EU Green Bonds; (iv) and co-investments that finance the same undertaking, project or portfolio identified in financing and investment operations benefiting from a Union budgetary guarantee or financial instruments under Union

programmes pursuing environmental or social objectives; (v) in assets comparable to those set out in (i) to (iii) above with a proper justification of their high-level performance in terms of sustainability standards; (vi) in European social entrepreneurship funds; and (vii) that contribute to an environmental or social objective, with proper justification.

In respect of both the transition (Article 7) and sustainable (Article 9) categories:

- the requirement to achieve the 70% investment threshold will be considered to be met where products hold 15% or more of investments that are in economic activities aligned with the EU Taxonomy; and
- investments in public sector bodies cannot generally count towards the 70% threshold.

For each of the categories, exemptions to the applicable PAB exclusions are available in respect of investments in a use of proceeds instrument in a company and either: (a) the investment is in European Green Bonds; or (b) the use of proceeds does not fund any of the activities excluded by the PAB exclusions applicable to the category (and in respect of the sustainable category and does not fund certain activities regarding fossil fuel-related projects (as set out in further detail above)); and (c) the issuing company is not in violation of the UNGC or the OECD Guidelines. Exemptions are also available on these terms in respect of: (x) the fossil-fuel projects exclusion applicable to category 9 products; and (y) the general restriction on investments in public sector bodies counting towards the 70% threshold for Article 7 and Article 9 products.

Impact strategies

SFDR 2.0 introduces a concept of impact investing, which may be used by products categorised as either transition (new Article 7) or sustainable (new Article 9) that have as their objective the generation of a pre-defined, positive and measurable social or environmental impact.

Only products that are categorised under new Articles 7 or 9 and that meet the new definition of being impact-related may use the word "impact" in their name.

Funds of funds and indirect strategies

Funds of funds, or other products that makes indirect investments, may apply one of the new categories if they meet the relevant 70% threshold by holding investments in categorised products or other investments that meet the requirements relevant for those categories and that comply with the applicable exclusions. In order to assess their eligibility for a category, such products may rely on the disclosures provided by underlying categorised products.

Where a non-categorised fund of funds, or other product that makes indirect investments, claims that they invest in, are exposed to or are constituted by two or more underlying categorised products, information must be included in the product's pre-contractual disclosures covering (amongst other things) the relative share of underlying products that fall

within each category and the share of underlying investments that are not categorised.

Marketing communications and product names

Marketing communications must not contradict the information that is disclosed pursuant to SFDR 2.0 and, generally, only products that are categorised under new Articles 7, 8 or 9 may include sustainability-related claims in their names and marketing communications. However, products that are not categorised but claim to hold investments in underlying categorised products (as discussed above) may include sustainability-related claims in their marketing documents. Any sustainability-related claims made in marketing communications must be clear, fair, not misleading and consistent with the sustainability features of the product.

Products that are not categorised under new Articles 7, 8, or 9 may include information in their pre-contractual disclosures relating to whether and how sustainability factors are considered; provided, that such information:

- is not used in the product's name or marketing communications;
- is not a central element of the product's pre-contractual disclosures, i.e. the information is:
 - secondary, in terms of breadth and positioning, to the characteristics of the product;
 - neutral; and
 - limited to less than 10% of the presentation of the product's investment strategy;
- is not included in the key investor information document (KIID); and
- does not constitute a claim for the purposes of new Articles 7, 8 or 9 of SFDR 2.0.

Where a non-categorised product includes information in its pre-contractual disclosures relating to sustainability factors, a description of the product's consideration of those sustainability factors must be included in its periodic report on an annual basis (subject to similar limitations on the form and substance of such disclosures as applies to pre-contractual disclosures).

Grandfathering and transition periods

1. Grandfathering:

FMPs may choose not to apply SFDR, as amended by SFDR 2.0, to closed-ended products that were established and distributed prior to the date of application of SFDR 2.0.

2. Transition period:

With the exception of UCITS and AIFs, existing products that do not benefit from the grandfathering provision must apply the new category, website and reporting provisions within 12 months of SFDR 2.0's application date. UCITS and AIFs have been excluded from the transition provisions as such products are already subject to the ESMA ESG and sustainability-related fund names guidelines (the Guidelines). As a result, existing UCITS or AIFs that do not have fund names that bring them in scope of the Guidelines will need to ensure that they

begin their assessment of the finalised SFDR 2.0 requirements as early as possible to ensure that they have sufficient time to make any required amendments prior to the application date.

Entity-level disclosures

At entity level, SFDR 2.0 is reduced both in terms of scope and disclosure content. In particular:

- entity-level disclosures under Article 4 of the SFDR, regarding consideration of PAI, have been deleted;
- entity-level disclosures under Article 5 of the SFDR, regarding transparency of remuneration policies in relation to the integration of sustainability risks, have been deleted; and
- financial advisers and portfolio managers have been removed from the scope of the SFDR.

Other changes

The mandatory product-level disclosure regarding the consideration of PAI under Article 7 of the SFDR has been deleted; however, as mentioned above, products categorised under new Articles 7 and 9 will be required to identify and disclose the PAI of their investments on sustainability factors.

FMPs will be required to ensure that the use of data provided by external data providers (other than open source or publicly available data) is based on formalised and documented arrangements and that the use of estimates that are not based on data provided by external data providers is based on formalised and documented methodologies. FMPs will be required, on request, to provide clients with additional information, including relating to (amongst other things) data providers and methodologies relating to the treatment of missing data points that support estimates and are not based on data provided by an external data provider.

Member States will be required to ensure that competent or other national authorities do not "gold plate" the information, category criteria and category transparency requirements.

Next steps

The SFDR 2.0 proposal marks the starting point, rather than the finish line. The proposal will be subject to negotiation and amendment through the legislative process. Once adopted, SFDR 2.0 will apply 18 months after the date that it enters into force.

The power to adopt delegated acts under SFDR 2.0 has been granted to the EC, which is required to conduct consultations prior to their adoption. The power to adopt delegated acts covers (amongst other things) the conditions that apply to each category, including relevant indicators, possible deviations from the applicable exclusions, methodologies for calculating the threshold of aligned investments and the conditions for qualifying investments. The detail to be set out in the delegated acts will be key for the industry to properly assess the full shape of the new framework and how it will apply to financial products in practice.



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