

SFDR review: timeline and priorities

1. Introduction

The Chair recalled that the SFDR, in force since March 2021, marked a significant milestone in the EU's sustainable finance journey, expanding sustainability-related offerings and visibility. However, persistent outflows are now being recorded from ESG funds, particularly Article 9 funds. The geopolitical context can partly explain the trend but the impact of legislation and its implementation cannot be underestimated.

The implementation of SFDR has been challenging, due to the absence of clarity on foundational concepts of the regulation, like that of a sustainable investment. The SFDR RTS added a layer of complexity, requiring highly detailed information resulting in interpretation challenges. The RTS also required very specific data driven disclosures while ESG data or reliable ESG data was lacking. In November 2025, the European Commission issued its SFDR 2.0 proposal, introducing new categories and associated minimum criteria – broadly supported during consultations – while maintaining certain flexibilities such as voluntary indicators and catch-all provisions.

2. In general, a positive assessment of the proposal

A supervisor welcomed the review given the widely acknowledged limitations of the original regime, and supported the Commission's balance between clarity on categories, simplicity and burden reduction, and flexibility to leave room for innovation. The recognition of a transition category, drawing partly on earlier ESMA anti-greenwashing guidelines, is a particular positive.

An industry representative noted that Articles 8 and 9 had been misused as product labels despite being designed for disclosure. The three categories, minimum criteria and common 70% threshold are a clear improvement, providing a stability backbone, more consistent vocabulary and names easier for clients to understand than article numbers.

An industry representative observed that investors see long-term value in supporting Europe's transition. Delivering the European Green Deal objectives – climate challenge, circularity, biodiversity, nature loss, and pollution and waste, through a just transition – in a way that strengthens the economy represents an important opportunity. The SFDR review must balance investors' flexibility to develop diverse strategies with the clarity and simplicity of disclosures needed throughout the investment chain. The move towards a more intentional categorisation regime, with clear requirements and thresholds, a shorter reporting framework and the removal of some entity-level disclosures, is very welcome.

Another industry representative welcomed the three categories, including the long-absent transition category, and the common approach combining minimum binding criteria, exclusions and common disclosure requirements.

An industry representative explained that, while SFDR does not apply directly to benchmark administrators, it must be reflected in product design so clients can meet their own requirements. The three-category framework reflects different levels of sustainability ambition and addresses the vague SFDR 1.0 definitions that retail investors had found hard to grasp.

A supervisor stressed that a key challenge for retail clients is identifying which products will actually deliver ESG value. Market practice led to a misunderstanding that Articles 8 and 9 guaranteed a minimum ESG standard, whereas SFDR was designed for disclosure. Explicit product categories are a positive move, but meaningful definitions are indispensable. A German retail client survey found 60–70% interested in ESG investing but overwhelmed and unable to decide. The new transition category carries significant economic potential, notably in transport and real estate, where credible transition strategies already exist.

3. Remaining difficulties and subsequent recommendations

An industry representative warned that SFDR 2.0 does not adequately address the French life insurance market, a significant part of European financial markets. The insurance sector represents more than €9.5 trillion in investments, 70% of which invested within the EU. Insurance-based investment products, especially multi-option life insurance products (MOPs), are not explicitly addressed, risking denying millions of customers clear and comparable information. Level 1 must therefore include provisions for insurance contracts, particularly euro-denominated ones. Sovereign bonds, 40% of euro-denominated funds, must also be captured, which is feasible as several providers can classify them. The ESG ambition of the industry is well established; the real issue is ensuring the entire European economy moves in the right direction, failing which market participants will seek alignment outside Europe. Phasing is key: the 1% coal, 10% oil and 50% gas thresholds and other exclusions must be adapted to the transition, reviewed regularly and implemented progressively without market disruption, especially for fund-based or indirectly managed portfolios. The 10% threshold in pre-contractual documentation will be very difficult to assess in practice, and the 70% threshold for the transition category must be carefully considered. IBIPs, MOPs and sovereign debt must be fully integrated into the framework.

Another industry representative argued that the transition category would be enhanced by recognising not only what

funds hold but also how investors steward capital, since the current static focus limits SFDR's ability to incentivise real-world outcomes. Stewardship – active, outcomes-focused engagement – strengthens transition plans through ongoing dialogue, scrutiny, challenge and oversight, building market confidence and channelling investment to the companies most capable of transitioning. Transparency throughout the investment chain creates a virtuous cycle. Transitions also require collaboration across policymakers, regulators, financial services, technology and R&D; information generated through stewardship reveals where the main obstacles lie. Embedding engagement and stewardship at the core of SFDR will drive the long-term transition of the European economy.

Another industry representative stressed the need for an appropriate balance between minimum criteria and sufficient flexibility, developed in light of market reality, to avoid empty or niche categories – especially the transition category, which must be properly defined so only companies with a true transition trajectory are included. Eligibility of sovereign bonds should be extended at least to the transition category; stewardship and engagement should also be recognised; and the methodology must always be transparent, particularly where private and real assets are included. On the 10% ratio, only categorised products should ideally be allowed to make ESG claims. Otherwise, non-categorised products making such claims should be subject to a strong disclaimer and confined to a clear, limited set of indicators detailed at level 2. The 10% ratio itself would be very difficult to demonstrate in practice.

The Chair noted that the European Supervisory Authorities (ESAs) are also proposing a disclaimer rather than the 10% ratio in their opinion on SFDR.

An industry representative stressed that flexibility, particularly for the passive industry, must go hand in hand with transparency on methodology. Investors need to implement strategies aligned with their objectives and use relevant KPIs, avoiding a one-size-fits-all approach. As the new categories will shape the ESG market, extensive testing of level 1 and level 2 criteria is essential; benchmark administrators, including LSEG, can contribute. Exclusions are a major challenge: the 1% thermal coal threshold significantly reduces the investable universe, and the exclusion of new fossil fuel projects, lignite and coal will be difficult to implement as the underlying data does not yet exist – a phased approach would be more realistic. Engagement cannot be a standalone condition.

A supervisor explained that regulation should set minimum requirements on the credibility of transition plans to prevent greenwashing, though approval of plans is not the supervisor's role. The basic category must demonstrate credible positive ESG features; a 'catch-all' with no minimum ambition would become a mere label and disappoint investors. Naming and claiming is critical in distribution, and greater clarity in level 1 or level 2 binding requirements will improve client understanding.

A supervisor fully supported the three categories, underlining that the transition category is crucial to support a complex, multi-year and resource-intensive process and must be clearly defined to ensure financing

flows. Vigilance is needed on two fronts: a shared understanding of each category at all levels to avoid the confusion that arose under the Article 8 catch-all in SFDR 1.0, on which ESMA stands ready to support the Commission; and alignment between product names and underlying categories, to build confidence and prevent unwarranted claims by non-categorised products.

The Commission representative confirmed that Council negotiations are proceeding well and that concerns on the transition category and scope will be addressed in the co-decision process. The proposal balances key parameters and criteria with the accommodation of diverse ESG strategies, in line with simplification and with helping investors make better sense of the ESG products available. Consultation, stakeholder outreach and the impact assessment confirmed that three EU-level categories, combined with sufficient flexibility to future-proof the regulation, offer the best way to reassure investors and support product comparability.

4. Simplification and burden reduction

The Chair recalled that simplification and burden reduction are key Commission objectives reflected in the proposal, with a revised scope, removal of entity-level principal adverse impact (PAI) disclosures, and specific provisions on the use of data and estimates in response to the ESG data challenge and related reforms, notably the CSRD.

An industry representative welcomed the reduced reporting burden, noting that at a French insurance company only 1,000 of 14 million eligible customers had viewed the two-page entity-level format on the app.

A supervisor added that simplification is always welcome, but the balance between costs and benefits must be considered. Providing meaningful information that makes decisions easier for retail investors is a real benefit, with some justifiable costs on providers. Overall, the Commission has produced a very promising proposal.

The Commission representative explained that the proposal retains the essential elements of the first iteration while adapting to post-Omnibus ESG data realities and removing excess burden. Removal of entity-level disclosures and financial advisors could take place as soon as the proposal is adopted. A review clause in the recently adopted ESG ratings regulation will allow the costs and transparency of ESG data providers to be examined. On the level playing field, the proposal builds on existing practices and widely available data to avoid burdening ESG products compared with non-ESG products. Removing financial advisors and portfolio managers – whose activities are distinct from product manufacturing – is a considerable burden reduction. Forthcoming adjustments to MiFID and IDD delegated acts will align insurance distribution with the new SFDR categories. While general-purpose sovereign debt is excluded from the 70% contribution threshold, such assets can count towards the 70% of the ESG basics category, ensuring adequate market coverage.

5. Conclusion: priorities for the next steps to build credibility and trust

The Chair invited panellists to share their SFDR 'wish list' for a fully functioning regime, noting that successive iterations of the current regime may have affected investor trust, while unclear level 1 and overly complex level 2 texts had not been conducive to supervisory convergence.

An industry representative emphasised that MOPs must be considered at level 1 and sovereign debt explicitly addressed.

A supervisor prioritised investor confidence – built through a framework responsive to investor needs and understanding – alongside clarity and consistency to ensure the framework operates effectively.

An industry representative called for pragmatism and true simplification; a frictionless transition between the current SFDR and its revised version, with full dialogue among stakeholders; and proper articulation with ESG preferences, as the criteria used today will disappear and alignment between the new SFDR categories and ESG preferences is essential to avoid confusion for end investors, for whom the framework must ultimately be clear, accessible and easy to understand.

An industry representative put flexibility first, followed by testing of criteria before full implementation, full transparency from financial market participants and data providers, and interoperability, notably with the UK regime.

An industry representative called for engagement to be incorporated within the transition category, so it becomes a true driver of change rather than merely a category for companies with the potential to transition, alongside simplicity and clarity of categorisation.

A supervisor suggested that SFDR will succeed if it enables investors to make informed decisions according to their preferences: the credibility of the categories is therefore key and they should not be too broad. Ultimately, investors retain responsibility for checking that products match their preferences, as regulation cannot cover every detail.

The Chair summarised that there is broad agreement on the direction of travel regarding SFDR 2.0. However, as usual, the difficulties lie in the details. SFDR 2.0 is a renewed opportunity – a second chance to get it right, and probably the last one for a long time. A robust regulatory framework fosters investor trust, and investor trust is pivotal to the success of any regulatory initiative