SFDR 2.0: MAKING THE NEW PRODUCT TIMELINE AND PRIORITIES

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SFDR: Delivering simplification while safeguarding the framework's ambition

The legislative proposal on the SFDR review is a timely and necessary evolution. While the SFDR significantly improved transparency and established a common disclosure framework, it introduced unnecessary complexity, particularly for retail investors. It also fell short of effectively reorienting financial flows toward the transition to a more sustainable economy.

The proposed three-category system marks a shift from a transparency-driven framework to one based on binding minimum criteria. This evolution is welcome, as it better aligns financial products with the different needs and preferences of investors. To ensure coherence and prevent greenwashing, the requirements applicable to each category should reflect both its distinct objective and a meaningful level of ambition.

Regarding the categories, some criteria could be further refined. The ESG Basics category must strike a delicate balance: it should remain broad enough to ensure market coverage while being more selective than current Article 8 funds. The inclusion of meaningful selectivity criteria, drawing on established market practices, is essential to prevent the category from becoming overly broad and providing limited added value. At the same time, the requirements should not be so restrictive as to limit the role of this category as an entry point for investors seeking a broad ESG approach.

The Transition category deserves particular attention, as it addresses a long-standing gap in the sustainable finance framework. Its design should combine ambitious objectives with flexibility regarding the strategies used to achieve them. The Council's negotiating position clarifies the process-based assessment of "credible" transition plans and portfolio targets, which is a positive development. Another key consideration is the treatment of exclusions. Companies operating in high-emitting industries that are actively implementing decarbonization strategies should be able to qualify for this category, subject to transparent disclosure to investors on such exposures. This is consistent with the objective of supporting the transition of the real economy.

Categories' requirements should reflect their distinct objective and a meaningful level of ambition.

The focus on simplifying ESG reporting is welcome, provided it does not compromise the ambition of the framework. Streamlining pre-contractual and periodic disclosures will reduce the administrative burden on financial market participants without limiting investors' access to material information. However, simplification should not come at the expense of transparency on crucial information. Given the SFDR's objective of supporting the transition to a more sustainable economy, the framework should require greater transparency on how engagement with investee companies and the exercise of voting rights contribute to achieving the sustainability objective pursued by the financial product. Such disclosures are particularly relevant for the Transition category. The debate on Principal Adverse Impact (PAI) indicators also reflects a persistent tension. While their complexity and compliance costs have been criticized, these indicators have played a crucial role in harmonizing disclosures. The flexibility introduced in the initial proposal risked weakening this progress. A balanced solution would consist of maintaining a limited but mandatory set of PAI indicators for all categorized products.

Despite the proposal's strengths, two key adjustments to the SFDR framework remain necessary to preserve its integrity. First, the catch-up provision for eligible investments will require a high degree of supervisory convergence among Member States. This is essential to enhance product comparability across the market and maintain an appropriate level of ambition. Second, if the SFDR is intended to provide a comprehensive framework for all financial products, its scope should ultimately be extended to structured products.

Beyond these adjustments, two broader legislative developments should be considered to fully realize the SFDR's objectives. Without further action on ESG data, the sustainable finance framework will remain incomplete. Pending the development of a dedicated regulatory framework, financial market participants should not bear sole responsibility for addressing shortcomings in ESG data quality. Finally, the SFDR review should be aligned with the revision of sustainability preferences. The current questionnaire remains overly complex for retail investors, who often struggle to express their sustainability preferences effectively. A simpler and more user-friendly approach, consistent with the new SFDR categories, is essential to ensure that sustainable finance remains both accessible and meaningful for all investors.

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Navigating the transition to SFDR 2.0: regulatory changes and market implication

SFDR as disclosure regulation, should enable investors to navigate the sustainability product offering and make an informed decision of the investments that are proposed to them. However, the current SFDR framework has been criticized for overwhelming (retail) investors with complex and extensive information, hindering product comparability and transparency. To address these shortcomings, the European Commission's November 2025 proposal for SFDR 2.0 introduces three product categories - sustainable, transition and an ESG basics - based on pre-defined criteria. The proposal aims to establish a common language around sustainability among stakeholders, helping to improve the comparability across products. It also aims eliminating the excessive flexibility currently offered under SFDR, while being part of the broader objectives of the European Commission of simplification and burden reduction. Since the publication of the proposal, the Council has adopted its negotiating position, while discussions remain ongoing in the European Parliament.

While the Level 1 proposal sets out the main features of the categorisation framework, a comprehensive assessment remains difficult without the Level 2 measures, which will provide the detailed rules and technical specifications needed to assess its practical implications. This is particularly relevant as key concepts, such as a credible transition plan and the parameters of the proposed impact theory, will only be defined at Level 2.

Among the strengths of the proposal, the criteria and minimum requirements for the categories under the proposed SFDR 2.0 framework are derived from the ESMA Guidelines on fund names using ESG- or sustainability-related terms, which could help towards reducing the market disruption for investment funds. The eligible assets under the different categories also build on concepts that are already familiar to market participants, such as portfolios meeting the criteria for the EU Paris-Aligned Benchmarks (PABs) or Climate Transition Benchmarks (CTBs), Taxonomy-aligned investments, European Green Bonds, and use-of-proceeds bonds. Notwithstanding these strengths, while SFDR 2.0 builds on established concepts and existing market practices, certain elements of the proposal may nevertheless pose implementation challenges for market participants and supervisory challenges for NCAs.

Once the rules are finalised, early preparation and anticipation will be key to ensuring a smooth transition to the revised SFDR regime.

The contribution threshold under the proposed SFDR 2.0 framework has been set at 70%, which is not aligned with the corresponding thresholds set out in the ESMA Guidelines. The same applies to the exclusion criteria.

Although the 70% threshold generally lowers the requirements established under the ESMA Guidelines, it could have important implications for funds using the term “sustainable” in their names and disclosing under Article 8 SFDR, as they are currently subject to a 50% contribution threshold. The proposal also introduces a catch-all provision for the sustainable and transition categories, allowing market participants to include investments that fall outside the prescribed eligibility criteria, provided that an appropriate justification is disclosed. While this approach may support innovation, it appears difficult to reconcile with the objectives of a categorisation regime aimed at enhancing clarity, comparability and investor understanding. It also risks replicating one of the key shortcomings of the current SFDR framework—namely, excessive flexibility—and may not be conducive to supervisory convergence across the EU.

The Council further proposes that general-purpose issuances by public-sector bodies may count towards the contribution criterion only for products in the transition category, and that AIFs marketed exclusively to professional investors may opt out of the SFDR 2.0 categorisation regime. These provisions may undermine the framework's harmonisation objectives and weaken the level playing field across the EU. Finally, the proposal remains silent on the long-standing issue of the treatment of derivatives under the SFDR. Consequently, it provides no clarity on how the exclusion criteria would apply to derivative exposures, a question that has already posed significant challenges in the application of the ESMA Guidelines. While this question may appear to be a technical detail, it could have important implications in terms of addressing greenwashing risks.

SFDR 2.0 constitutes a major revamp of the existing framework. Although the proposal builds on well-established concepts, its implementation is likely to present implementation challenges. Adjustments to investment strategies and/or portfolio rebalancing will certainly be necessary. Once the rules are finalised, early preparation and anticipation will be key to ensuring a smooth transition to the revised SFDR regime.

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How the SFDR review can achieve the transition to a more sustainable economy?

Negotiations on the SFDR review accelerated at the end of the first half of 2026. The Council adopted its general approach in June 2026. Rapporteur Gerbrandy published his draft report in early May and other MEPs published their amendment proposals in early June. A vote in ECON, initially planned in mid-July, is now expected to take place in early September, with a Parliament Plenary vote shortly afterwards. Trilogue discussions could be finalised before end of 2026, under the Irish presidency.

These developments have come about despite divergent views on several aspects under review. Finally, the Council has agreed on a more flexible approach than the one proposed by the European Commission. In the European Parliament, uncertainty persists over what sort of compromise could be reached. However, it seems that more prescriptive measures than those of Member States in the Council could prevail in several important areas. If this is confirmed, trilogue discussions will be key to reaching a compromise acceptable to all parties.

At this stage of the negotiations, key points of attention include:

The ESG Basics category should not be too restrictive. It is important to have common minimum binding criteria to identify products eligible for this category and ensure it does not just replicate the current Article 8. At the same time, over-prescriptive criteria that would result in a very selective approach would exclude many products that integrate sustainability factors beyond the consideration of sustainability risks, while complying with robust criteria.

Engagement is very positive to build up a trustful relationship with companies and enhance long-term value creation. However, engagement is not in itself an investment strategy, so it should not be treated as a necessary precondition, nor as a standalone criterion, for product categorisation. Engagement strategy is most relevant to the transition category, when used in conjunction with another qualifying condition and with robust disclosure. Also, it should remain anchored at firm level while complying with Shareholder Rights Directive II, which already regulates these considerations and will be revised in the coming months.

Companies with a robust transition path should be eligible for the Transition category to ensure that this category will become a reality. This means having a balanced approach, based on both concrete criteria and the possibility for financial market participants to demonstrate that they can select the right companies and investments through the use of robust, documented and transparent methodologies. Over-complex conditions would not be practicable and would effectively result in something similar to exclusion.

In this discussion, it is crucial to clarify the ultimate goal of this review.

Sustainable structured products are not included in the scope of the SFDR while they can channel capital towards sustainable companies and offer retail investors with ESG preferences access to capital-protected solutions. Their inclusion could be achieved by adding PRIIPs to the “financial products” definition under SFDR.

In this discussion, it is crucial to clarify the ultimate goal of this review. Is it to increase the allocation of capital to a more sustainable economy, in a context where transition financing is considered as one of the most critical current challenges? Or is it to use the SFDR only as a tool to fight against greenwashing, with a highly selective approach? The answer to this question is crucial.

BNP Paribas Asset Management clearly favours the first option while also tackling greenwashing. The various reports released in the course of 2025 before the nomination of the new Commission clearly underline the strong need to finance the various transitions – the transition to a more sustainable economy being a major one - and the challenges of doing so. It is both necessary and urgent to attract private funding for ESG products categorised under the SFDR, as public funding will not be sufficient to address the identified needs.

For this to be efficient and so that the SFDR does not become only a tool to fight greenwashing, certain conditions must be fulfilled:

Common binding criteria for each category, including on exclusions;

Avoidance of empty categories by having balanced exclusions and permitting sufficiently large investment universes;

A modicum of flexibility to permit innovation and address specific asset classes and situations;

Clear and simple SFDR categories to facilitate end-investors’ investment decisions. This means that existing sustainability preferences must also be revised, with the same timing as the SFDR revision;

Disclosures limited to information that is truly useful for investors, while enabling comparability between products.

It is the combination of these conditions that should make the SFDR review successful and provide a real opportunity to attract more investors to sustainability financing with a simple, clear but also ambitious European framework.

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SFDR 2.0: less rules, more transition

SFDR 2.0 is a test. Can the EU simplify a framework that helped create a transparency culture in sustainable finance – without swapping one compliance burden for another? The answer matters: done right, SFDR 2.0 can channel capital into real-world transition; done badly, it will generate paperwork and misunderstanding, with little impact on outcomes.

The direction of travel is right. Clear product categories, shorter disclosures and the removal of entity-level requirements are genuine improvements. But the test of success is not regulatory comprehensiveness – it is investor understanding, market usability and capital mobilisation at the scale the transition actually requires.

The three **product categories** – sustainable, transition and ESG basics – can provide useful market orientation, but only if they are intuitive and consistent. A system that requires pages of legal explanation to distinguish one category from another will repeat the mistakes of Articles 8 and 9. Clarity is not a concession to simplicity; it is the precondition for investor trust.

The transition category is where the stakes are highest. The EU needs capital to flow to companies and sectors that are moving from brown to green – not only to those that have already arrived.

A category weighed down by exclusion requirements that do not sufficiently reflect transition realities will drive capital away from exactly the issuers and projects that most need it. Instead, the framework should better support the financing of real-world transition and reward credible transition plans and measurable pathways, while avoiding carbon lock-in. Transition finance is not a lighter shade of green; it is the engine of decarbonisation in the real economy, and the category that will determine whether SFDR 2.0 delivers impact or merely optics.

Proportionality matters. An overabundance of granular criteria, such as non-material PAI indicators and DNSH sub-criteria that are not available for all asset classes, does not improve outcomes – it increases operational cost and narrows investment flexibility.

Beyond a certain point, precision becomes noise. Regulation should set clear, verifiable and enforceable requirements and leave professional judgement to asset managers and insurers. A framework that is too rigid will not improve the quality of investment decisions – it will constrain them.

SFDR 2.0 must work equally across all asset classes and product types – not just listed equities. Sustainable and transition products are built across equity, corporate credit, sovereign bonds, multi-asset strategies, private markets and insurance-based products. These differ fundamentally in data availability, liquidity and investment horizon. Designing the framework mainly around one of them is a structural flaw, not a simplification, and it risks excluding the very vehicles through which most European savings are actually invested.

Investor understanding - not regulatory comprehensiveness - is the test of success.

Sovereigns are a case in point. They are central to climate policy, public investment and infrastructure financing and play a critical role in long-term institutional portfolios – particularly for insurers matching long-dated liabilities. Excluding them from key product categories would materially reduce the framework's practical reach. Private assets present the same challenge from a different angle: approaches designed for listed markets cannot be transposed directly, yet private capital is indispensable for real-economy transition, from grid infrastructure to industrial decarbonisation. Both need a workable treatment in the final text, or the framework will end up steering capital away from where it is most needed.

Implementation must be designed around investors, not regulators. SFDR 2.0 should help individual investors understand what a product does, compare options and assess whether it matches their preferences. It should enable distributors to explain products clearly and manufacturers to implement requirements consistently across jurisdictions. If the end investor cannot grasp the core elements at a glance, the framework has failed its primary purpose – regardless of how technically elegant it looks on paper. Timing matters too: market participants need sufficient lead time to adapt systems, data processes and product documentation. Rushed implementation risks confusion and cost that ultimately fall on investors.

As co-legislators move toward the final text, one principle should guide every decision: will this make it easier or harder for capital to flow into sustainable and transitioning activities? SFDR 2.0 should mean fewer rules, clearer categories and a flexible framework that accommodates all asset classes and investor types – ultimately supporting broad market adoption and channelling capital into real-world transition. That is the only test that matters.

STEFANO GIULIANI
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SFDR 2.0: From a static to a dynamic approach?

As the "last mile" for retail investors and Italian citizens, Poste Italiane has a distinctive perspective on sustainable finance: regulation must be understandable, trustworthy and usable by ordinary savers, not only by specialists. For us, the revision of the Sustainable Finance Disclosure Regulation is therefore not a technical exercise only. It is a test of Europe's ability to build a framework that is credible for investors, workable for asset managers and distributors, and effective in financing the transition of the real economy. From the perspective of BancoPosta Fondi SGR, the priority is clear: SFDR 2.0 should move from a compliance-led regime to an investor-centred, product-based architecture that works across asset classes.

SFDR 1.0 has delivered a common language for sustainability disclosures, but Articles 8 and 9 have become de facto labels, although they were never designed as such. This has created confusion for retail investors, uneven market practices and greenwashing risks. While the European Commission has now tabled a legislative proposal for SFDR 2.0, the regulation is not yet finalized and will still need to pass through the EU legislative process. In this context, it could be interesting to consider the proposals put forward in November 2025 by the fund industry in response to the Commission's call for evidence: simplification, legal certainty, proportionality and the avoidance of excessive operational burdens. These principles should guide the new framework.

First, the new categories must be intuitive, mutually exclusive and anchored in the real objective of the product. A "sustainable" category should be reserved for strategies with a clear contribution to environmental or social goals, supported by robust safeguards. A "transition" category should recognize products financing issuers, sectors or sovereigns moving credibly towards more sustainable models. A broader ESG category may be useful, but it must not be presented as equivalent to sustainability or transition. Investors should immediately understand whether a fund invests in sustainable assets, finances change, or integrates ESG factors to improve portfolio quality and risk management.

Second, the framework must be designed across asset classes from the outset. Listed equities, corporate bonds, sovereign debt, multi-asset funds, funds of funds and private assets cannot be judged through one mechanical threshold. Taxonomy alignment, transition plans, emissions trajectories and controversy screening may work for listed companies; sovereigns require different indicators, including national pathways and institutional quality; private markets need proportionate treatment of data gaps. Without this flexibility, SFDR 2.0 could penalize diversification and reduce access to credible sustainable solutions for mass-market savers.

> **A workable SFDR 2.0 would help Europe mobilise savings for sustainability while protecting investors from exaggerated claims. It should also recognise that what society defines as "sustainable" is not static.**

This is consistent with Poste Italiane's sustainable investment policy and BancoPosta Fondi SGR's responsible investment framework, which integrate ESG analysis, exclusions, portfolio monitoring, attention to principal adverse impacts, engagement and disclosure. SFDR 2.0 should reward this disciplined process: not box-ticking, but governance, accountability and measurable progress over time.

Third, SFDR should be aligned with MiFID sustainability preferences, the EU Taxonomy, CSRD data and benchmark rules, while reducing duplication. Disclosures should be shorter, comparable and useful for decision making. Product names and marketing claims should be linked to the chosen category, and supervision should focus on substance: objective, strategy, binding elements, indicators, stewardship and reporting.

Finally, implementation must be orderly. Existing products will need time to map strategies into the new categories, update disclosures, adapt distribution processes and communicate changes to clients. International institutions should support phased implementation, supervisory convergence and practical guidance on asset-class methodologies and data limitations. The goal is not to reduce ambition, but to make ambition investable.

A workable SFDR 2.0 would help Europe mobilize savings for sustainability while protecting investors from exaggerated claims. It should also recognize that what society defines as "sustainable" is not static. The recent debate on defense and security shows that sustainability frameworks must be able to adapt to real-time, pressing needs, while preserving clear safeguards and investor trust. Sustainable finance is not one single strategy, but a spectrum: investing in sustainable assets, financing transition and integrating ESG responsibly. For BancoPosta Fondi SGR, this is also a fiduciary duty. If the new framework combines clarity, flexibility, credibility and adaptability, it can become not merely a disclosure regime, but a practical engine for sustainable growth.