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COVER NOTE

From: The President of the European Economic and Social Committee,
Séamus BOLAND

To: Ms Thérèse BLANCHET, Secretary-General of the Council of the
European Union

Subject: Opinion of the European Economic and Social Committee on
Sustainable Finance Disclosure Regulation review



OPINION

European Economic and Social Committee

Sustainable Finance Disclosure Regulation review

Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR), Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) and repealing Commission Delegated Regulation (EU) 2022/1288 (COM(2025) 841 final – 2025/0361(COD))

ECO/693

Rapporteur: **Javier DOZ ORRIT**

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Advisor	Brooke MOORE (to the rapporteur)
Legislative procedure	EU Law Tracker
Referrals	European Parliament, 10/12/2025 Council of the European Union, 19/2/2026
Legal basis	Articles 114 and 304 of the Treaty on the Functioning of the European Union
European Commission documents	COM(2025) 841 final – 2025/0361(COD) Summary of COM(2025) 841 final – 2025/0361(COD)
Relevant Sustainable Development Goals (SDGs)	SDG 7 – Affordable and clean energy SDG 8 – Decent work and economic growth SDG 9 – Industry, innovation and infrastructure SDG 11 – Sustainable cities and communities SDG 13 – Climate action SDG 14 – Life below water SDG 15 – Life on land
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	25/2/2026
Adopted at plenary session	18/3/2026
Plenary session No	604
Outcome of vote (for/against/abstentions)	193/0/0

1. INTRODUCTION

- 1.1 Following a review process, in November 2025 the European Commission proposed a revision of the Sustainable Finance Disclosure Regulation (SFDR). In force since 2021, the SFDR introduced entity- and product-level disclosure requirements for financial market participants with the aims of increasing transparency on sustainability risks and adverse impacts, clarifying the extent to which companies or financial products meet sustainability benchmarks, curbing greenwashing and enabling comparability across investment products. The SFDR was thus the first framework to regulate how ESG¹ information is structured and communicated to investors, representing an important step in shifting market practices and integrating sustainability considerations into investment decisions.
- 1.2 The proposed revision responds to several implementation challenges. Although designed as a disclosure regime, the SFDR has been widely used in practice as a *de facto* product labelling framework, specifically around the marketing of Article 8 and 9 products without consistently meeting implied standards, raising greenwashing concerns. Further issues include misalignment of core definitions, notably ‘sustainable investment’, with other EU sustainable finance legislation, persistent constraints in accessing reliable ESG data, and disclosures that are simultaneously too complex for retail investors and insufficiently targeted for professional users. These shortcomings have contributed to legal uncertainty, supervisory divergence and disproportionate compliance costs, particularly for smaller market participants. Most notably, the revision proposes a shift from a disclosure-based regime to a product categorisation framework, introducing three product categories defined by minimum criteria and exclusions. Additional changes include the simplification of entity-level reporting, including the removal of principal adverse impact (PAI) reporting, reduced and simplified product-level disclosures, stricter naming and marketing rules, a narrowing of scope to exclude financial advisers and portfolio managers, and the removal of the standalone ‘sustainable investment’ concept, to be instead embedded within the category-specific requirements.
- 1.3 The EESC welcomes several elements of the proposal, particularly the introduction of product categories and a dedicated transition category, as previously recommended in its opinion on *A new impetus for the European sustainable finance framework*². The EESC supports the Commission’s objective of moving away from the unintended use of the SFDR as a *de facto* labelling regime, which has generated legal uncertainty, compliance costs and supervisory divergence, particularly for smaller market participants. However, the revision comes at a time when the European Green Deal is increasingly contested, and while the Commission is pursuing a broader sustainability omnibus aimed at streamlining the EU sustainable finance framework. As highlighted in the above-mentioned opinion, there is a fine line between genuine simplification to facilitate effective implementation and simplification that risks diluting ambition. As the first framework of its kind, SFDR set an important global precedent. In this context, the revision must send a clear long-term signal to markets that the EU’s green transition remains firmly on course and that any simplification will support, rather than weaken, the steering of capital towards sustainable and

¹ Environmental, social, and governance.

² OJ C, C/2026/21, 16.1.2026, ELI: <http://data.europa.eu/eli/C/2026/21/oj>.

transition-aligned activities. At a time when security and defence concerns are at the forefront of European public debate, it is essential to emphasise that upholding social and environmental objectives and sound regulations are indispensable political capital that also strengthens EU security.

- 1.4 The EESC welcomes the intention of the SFDR revision to deliver meaningful simplification, and underlines that effective simplification must focus on eliminating duplicative, low-value and poorly targeted disclosures, while preserving those elements that are essential for market integrity, investor protection and the steering of capital towards sustainable and transition-aligned activities.

2. **RECOMMENDATIONS**

Considering the scale of global and European sustainable finance needs, as well as the EESC's own opinions on the functioning and coherence of the EU sustainable finance framework in meeting these needs, the EESC makes the following recommendations on the proposed revision:

- 2.1 Ensure that any simplification of sustainable finance legislation, including disclosure requirements, does not weaken the contribution of the financial system and its credit and investment products to achieving the objectives of the European Green Deal within the legally bound timelines, and does not weaken measures against greenwashing.
- 2.2 Uphold the credibility and integrity of the SFDR by maintaining the exclusions set forth within the proposal and relying on recognised ecological as well as social standards.
- 2.3 Retain a highly streamlined and standardised set of entity-level disclosures, limited to information that cannot be meaningfully derived from product-level reporting.
- 2.4 Require category-wide disclosures against a limited and standardised set of PAI³-related indicators, with the objective of reducing the proliferation of bespoke, product-specific metrics.
- 2.5 Maintain a proportionate and strict minimum set of PAI-related disclosures for non-category funds, limited to what is necessary to preserve compatibility and avoid market distortion.
- 2.6 Elevate the role and integration of stewardship across the SFDR. This includes a more horizontal application across all product categories. For transition products, investor engagement and escalation plans should be established as mandatory eligibility criteria, rather than voluntary features. Moreover, stewardship practices should be reflected through mandatory entity-level disclosures.
- 2.7 Retain managed portfolios within the definition of financial products under the SFDR.
- 2.8 Preserve the disclosure-based approach to recognising impact investing within the transition and sustainable categories, while strengthening credibility through clearer safeguards.

³ Principal adverse impact.

- 2.9 Strengthen transition plan requirements under the transition category's eligibility criteria. The concept of transition within the SFDR framework should be broader than that of the green transition; social objectives should also be taken into account, so that eligibility would always involve choosing both environmental and social objectives. Sustainable financing criteria should require companies to adopt a credible plan for phasing out fossil fuels and particularly coal, aligned with the Paris agreement.
- 2.10 Guarantee alignment with the broader sustainable finance framework, ensuring that product categories do not contradict EU climate and energy policy objectives.

3. **EXPLANATORY NOTES**

Arguments in support of recommendation 2.1

- 3.1 The European Union is legally bound to achieve climate neutrality by 2050 under the European Climate Law. This goal requires not only unprecedented levels of investment but also a structural reorientation of economic decision-making towards long-term sustainability. Current estimates illustrate the scale of the challenge: the global SDG financing gap is estimated by the OECD at around USD 4 trillion, while the European Environment Agency (EEA) estimates that meeting the environmental objectives of the European Green Deal will require additional investment of approximately 4.1% of GDP through to 2030. Recent EU policy commitments, such as the Clean Industrial Deal's objective of mobilising EUR 100 billion, including from private capital, underscore the central role of the financial system in delivering this transition. At the same time, the Commission's 2025 Environmental Implementation Review estimates that the EU already incurs annual losses of around EUR 180 billion due to the environmental implementation gap, exceeding the estimated EUR 122 billion per year required to close it. This demonstrates that inaction is not a cost-neutral option.
- 3.2 The SFDR revision follows recent omnibus packages, notably Omnibus I, which have already reshaped elements of the EU sustainable finance framework. In this context, it is important to ensure that simplification does not dilute ambition. Doing so would not only diminish the EU's ability to mobilise necessary transition capital, but increase the economic risks linked to delayed transition. This includes carbon lock-in, stranded assets, and heightened exposure to climate-related losses, ultimately undermining the EU's legally binding climate and environmental objectives.
- 3.3 Therefore, the transition to a product categorisation system should minimise market disruption and allow financial market participants to leverage existing SFDR implementation efforts to avoid unnecessary additional costs. To ensure its effectiveness, it must be ensured that the SFDR is revised with realistic sequencing and sufficient transition periods, allowing companies to adapt systems incrementally and thereby supporting the Commission's burden-reduction objectives, particularly for smaller financial market participants.

Arguments in support of recommendation 2.2

- 3.4 With the removal of Article 2(17) of the SFDR, the proposal suggests eliminating the standalone definition of ‘sustainable investment’, instead seeking to uphold its underlying principles, such as the Do No Significant Harm principle, through product category criteria and exclusions. As a result, the credibility and effective application of these principles will depend directly on the stringency, coherence, and enforceability of the category-based criteria and exclusion rules.
- 3.5 The importance of maintaining robust exclusions is underscored by growing evidence of systemic risk. Despite projections that warming beyond 3°C could threaten around 40% of the global economy⁴, significant volumes of capital continue to flow to fossil fuel activities. In 2023, USD 869 billion was channelled to fossil-fuel firms⁵, while the world’s 60 largest banks hold an estimated USD 1.6 trillion in fossil-linked credit⁶. These figures highlight the need for firm and credible signals that actively incentivise decarbonisation wherever feasible, in order to reduce exposure to stranded assets, loan losses, and broader risks to financial stability. Analysis by the European Central Bank indicates that the SFDR has already contributed to improved ESG performance in banks’ public holdings, demonstrating its effectiveness as a policy instrument⁷. Weakening the proposed exclusions would therefore risk undermining one of the EU’s few proven levers for steering capital towards sustainable and transition-aligned activities.
- 3.6 The EESC welcomes the application of exclusions on all investments within the financial product, not only the 70% that qualify as eligible. The EESC also strongly supports the alignment of exclusions with the EU Climate Benchmarks Delegated Regulation, as well as the additional fossil-fuel related exclusions, most notably Articles 7 and 9’s exclusions of investments in new fossil fuel projects or in companies lacking credible phase-out plans. The EESC urges that these exclusions, as well as the more ambitious exclusions laid out in Article 9 for the ‘sustainable product’ category, be maintained as core legal safeguards necessary to ensure legal certainty, comparability and investor trust, and to avoid future regulatory fragmentation. This will result in the exclusion of all new exploration, extraction, refining or energy generation activities based on fossil fuels in all relevant product categories. However, the EESC points out that the financing of transport infrastructure that has a negative impact on the environment should not be excluded in the proposed regulatory review.

Arguments in support of recommendation 2.3

- 3.7 The proposal envisages the deletion of Articles 4 and 5, shifting the focus of disclosures predominantly to the product level, including through the removal of entity-level reporting on Principal Adverse Impacts (PAIs). 2023 SFDR consultation feedback indicates that some respondents found entity-level disclosures insufficiently used or overlapping with requirements under the Corporate Sustainability Reporting Directive (CSRD), suggesting scope for

⁴ Neal et al., [Reconsidering the macroeconomic damage of severe warming](#) (2025).

⁵ Milman, [World’s largest banks pledged \\$869bn to fossil fuel firms in 2024, new report finds](#). The Guardian (17 June 2025).

⁶ Finance Watch, [A trillion dollars of climate risk: Banks’ fossil fuel exposures and the case for a climate systemic risk buffer](#), Finance Watch (24 September 2025).

⁷ European Central Bank, [Impacts of ESG banking regulation on financing new sustainable technologies](#) (2025).

simplification. However, views on the relevance of entity-level PAI disclosures were still evenly split (31% in support, 31% against), reflecting their continued importance for a significant share of respondents. The Commission's 2025 impact assessment also indicates an absence of clear consensus among stakeholders on the removal of entity-level disclosures. Moreover, experience under the current framework shows that, even where requirements are complex or require preparation, financial market participants adapt their behaviour when the regulatory communication is clear.

- 3.8 While the EESC supports a significant reduction of entity-level disclosures, the proposed level of reporting would sit at odds with the consultation and assessment findings. This is particularly pertinent in light of recent scope reductions under the CSRD, which risk leaving many investors outside of both CSRD and SFDR reporting requirements. Moreover, the decision not to pursue sector-specific disclosures under the European Sustainability Reporting Standards (ESRS) increases the reliance on SFDR to provide such information. The EESC also considers issues like stewardship which, positively recognised under Article 7 of the SFDR 2.0 proposal, would rely on information that is typically defined at the entity level. Beyond ensuring coherence with the broader sustainable finance framework, the absence of such information would undermine financial market participants' ability to communicate their sustainability strategies, and approaches to risk integration and double materiality. Thus, in the interest of transparency, the EESC considers it important to retain a limited set of entity-level disclosures within the revised framework. The disclosure of information at the entity level that is maintained should be subject to proportionality safeguards that include simplified templates.

Arguments in support of recommendation 2.4

- 3.9 A major challenge for the effectiveness of the SFDR 2.0 will be ensuring adequate data availability and comparability across products. While the proposed approach to fund-level reporting introduces greater flexibility, it also risks reducing comparability between categories unless a degree of common disclosures is maintained. Establishing a set of core indicators would support consistency and comparability.
- 3.10 Requiring some PAI-related disclosures for the ESG basics category is particularly important, as it helps prevent it from becoming a repository for low-ambition products. Specifically, there is a risk that, during distribution processes, ESG basic products may be presented in a way that unduly elevates their sustainability characteristics. In this context, a harmonised baseline of mandatory PAI-related indicators can reduce administrative burden over time by replacing fragmented and bespoke disclosures with a common reporting reference, particularly benefiting smaller market participants. Such PAI disclosures would work in tandem with category exclusion criteria to reduce the risks of misselling, while also reducing asset manager burden when manufacturing transition- or sustainability-focused funds of funds.

Arguments in support of recommendation 2.5

- 3.11 The proposal suggests that funds falling outside the defined categories would not be subject to sustainability disclosure requirements. This approach runs counter to the findings of the 2023 SFDR consultation, in which a majority of respondents supported disclosure requirements for all

financial products, irrespective of sustainability claims, as a means of ensuring a level playing field⁸. While exempting non-categorised funds may reduce reporting burdens, it risks creating an imbalance whereby higher obligations fall disproportionately on products that opt into sustainability categories, potentially disincentivising sustainable investment choices. Such an outcome could undermine both investor protection and the Commission's objective of ensuring that simplification delivers durable and system-wide reductions in administrative burden rather than shifting obligations unevenly across products.

- 3.12 Uncategorized products are also likely to exhibit higher sustainability-related adverse impacts, making their clear identification essential for investor decision-making. This transparency is increasingly important in the context of the Savings and Investment Union, where the ability and trust to steer capital towards sustainable and transition-aligned activities will be critical to achieving the EU's transition objectives. Thus, while by no means extending extensive category-level reporting to non-category products, the EESC considers a minimum level of PAI-related disclosures for non-categorised products necessary to preserve comparability and avoid undermining sustainability incentives.

Arguments in support of recommendation 2.6

- 3.13 Article 7(2) proposed for the revised SFDR introduces sustainability-related engagement strategies and escalation plans as a voluntary element of transition products. This is a positive step towards recognising the role of stewardship in driving real-world change. Especially for the transition category, these elements are decisive factors in determining credibility and capacity to deliver measurable transition outcomes. However, in the context of the SFDR revision, numerous stakeholders have emphasised that stewardship should be further elevated⁹. Stewardship is comparably absent from the sustainability and ESG basic categories, while proposed rollbacks of entity-level disclosures leave a blind spot for stewardship practices, despite such strategies often being at the entity level.
- 3.14 Given these considerations, demonstrable stewardship practices, such as sustainability-related engagement strategies and escalation plans, should be made mandatory criteria for transition products, with requirements ensuring that stewardship activities cover a meaningful proportion of the portfolio, thereby ensuring both material and systemic impact. Introducing mandatory stewardship criteria would improve comparability between transition products, enhance supervisory enforceability, and strengthen market trust in transition labels. Leaving stewardship entirely voluntary would risk recreating the very ambiguity and fragmentation that the SFDR revision seeks to address. Stewardship-related criteria should also be recognised as a voluntary add-on within the sustainable and ESG basic categories. Furthermore, in alignment with recommendation 2.3 set out in this opinion, stewardship practices should be reflected through mandatory entity-level disclosures. The EESC feels it important to note that requiring basic stewardship capacity does not imply resource-intensive or continuous engagement activity.

⁸ European Commission, [SFDR Implementation – Summary of Responses](#) (2023).

⁹ Finance Watch, [Consumers need an ambitious Sustainable Finance Disclosure Regulation to gain trust in the Savings and Investment Union](#) (2025); IIGCC, [Strengthening net zero stewardship in the EU](#) (2025); AEFR, [SFDR: Will the revision deliver a clearer and trustworthy regulatory framework for sustainable finance disclosure?](#) (2025).

Rather, it establishes a minimum governance standard, comparable to risk management or compliance.

Arguments in support of recommendation 2.7

- 3.15 The proposal suggests deleting Article 2(12)(a) of the SFDR, thereby removing managed portfolios from the definition of a financial product. While this approach is motivated by the desire to address duplication and overlap with MiFID II¹⁰ suitability statement requirements, altering the definition of financial products in this way would also exclude managed portfolios from the SFDR categorisation scheme. Given that many large institutional investors, including pension funds, invest predominantly through discretionary portfolio management, their exclusion from scope would mean that a substantial share of capital would no longer benefit from the SFDR. While Article 9a introduces optional pathways for portfolio management to reference or align with SFDR categories, formal inclusion within the SFDR definition establishes baseline expectations that voluntary regimes cannot fully replicate. Where participation is voluntary, uptake is likely to be uneven, comparability across portfolios reduced, and supervisory enforceability weakened. As a result, financial advisers face greater operational complexity, preference matching becomes less consistent in practice, and sustainability or transition preferences risk being diluted at the point of distribution. There is also the risk that sustainability preferences become so complex to apply that they risk being weakened or abandoned altogether. Maintaining managed portfolios within the definition of financial products, while exempting them from pre-contractual and periodic disclosure requirements, would reduce operational burdens without excluding key investment channels. More broadly, ensuring coherence between SFDR product categorisation and the instruments used to meet MiFID II sustainability preferences would reduce legal uncertainty and support a level playing field across investment products, including those distributed to retail investors.

Arguments in support of recommendation 2.8

- 3.16 The proposal introduces an additional disclosure layer that allows products within the transition and sustainable categories to demonstrate impact investing. This approach is welcomed and should be preserved.
- 3.17 The EESC appreciates the diversity and complexity of impact investing practices and, thus, the challenge of designing a set definition or criteria. At the same time, excessive flexibility in this area risks enabling impact-washing, a concern also highlighted by the European and Securities Markets Association (ESMA), which has therefore called for clearer definitions and guidance around the concept of ‘impact’¹¹. As a result, the EESC recommends greater consideration in the coming stages as to how credibility can better be ensured, such as through a negative definition of impact investing or more stringent guardrails around disclosures.

¹⁰ Markets in Financial Instruments Directive.

¹¹ ESMA, [Final Report on Greenwashing](#) (2024).

Arguments in support of recommendation 2.9

- 3.18 Article 7(2) proposed for the revised SFDR sets out the conditions under which financial products may qualify as transition products. However, the current proposal, particularly point (c), lacks sufficient stringency. By allowing products to qualify on the basis of a ‘credible transition plan as regards at least *one sustainability factor*’, the proposal risks permitting inclusion of transition plans that are partial, loosely defined, or not truly transition-aligned. This risks creating a blurred eligibility zone in which products may be labelled as transition-focused despite being invested in companies or activities that remain far from Paris-aligned or socially transformative pathways, thereby undermining the credibility of the transition category. Strengthening these criteria would enhance integrity and investor trust, while still allowing flexibility through other eligibility routes under Article 7, including investments in taxonomy-aligned economic activities under point (b).
- 3.19 Furthermore, we consider it necessary that, as already approved by the EESC in relation to the global legislative framework for sustainable finance and its taxonomy¹², social objectives should be included alongside climate and environmental objectives in the SFDR framework. In this case, the eligibility criteria for the transition category should stipulate that both environmental and social objectives are selected.

Arguments in support of recommendation 2.10

- 3.20 The revision of the SFDR, together with wider changes to the EU sustainable finance framework, necessitates greater policy coherence, with data availability and comparability emerging as central challenges to overcome. For example, changes to the CSRD and Corporate Sustainability Due Diligence Directive (CSDDD) limit the information around transition plans necessary for the SFDR, while the deletion of sector-specific disclosures under the European Sustainability Reporting Standards (ESRS) increases reliance on SFDR to provide such decision-useful information. Full alignment and data reuse across legislative instruments are also essential to achieving the Commission’s administrative burden-reduction objectives, particularly for smaller market participants that rely more heavily on third party data providers. Relatedly, the EESC underlines the importance of:
- full alignment between the SFDR and the final CSRD delegated act, including the use of identical data points and consistent wording;
 - cohesion between level 2 indicators and the ESRS;
 - application of a double materiality-based approach to product-level disclosures, consistent with CSRD logic;
 - ensuring the availability of relevant and decision-useful indicators under the Voluntary Sustainability Reporting Standard for non-listed Small and Medium-sized Enterprises (VSME);
 - alignment with the Benchmark Regulation to maintain consistency on the minimum criteria and exclusions proposed under the SFDR 2.0, including those related to new fossil fuel projects;

¹² OJ C, C/2026/21, 16.1.2026, ELI: <http://data.europa.eu/eli/C/2026/21/oj>.

- increased transparency and data reliability requirements for ESG data service providers, as changes to the CSRD are likely to increase financial market participants' reliance on third-party data, while the SFDR 2.0 proposes strengthened transparency around estimates and methodologies.

Brussels, 18 March 2026.

The President of the European Economic and Social Committee
Séamus BOLAND
