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MEETING DOCUMENT

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To:	Working Party on Financial Services and the Banking Union (Sustainable Finance) Financial Services Attachés
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SFDR review

Impact assessment and legislative proposal

December 2025

Impact Assessment

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1. **Background** *(slide 3)*
2. **Evidence and context** *(slide 4)*
3. **Problem definition** *(slide 5)*
4. **Objectives** *(slide 6)*
5. **Options considered** *(slide 7)*
6. **Analysis of options** *(slide 8 to 9)*

1. Background and context

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- Applicable since 2021 – one of the first pieces of the EU sustainable finance framework
- Review underway since 2023
- 2024 ESMA fund name guidelines
- February 2025 Omnibus I
- October 2025 non-essential L2 list

2. Evidence and input

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- Public consultations and dedicated workshops (2023-2025)
- Two reports by the Platform on Sustainable Finance (2023-2024)
- A joint opinion from the European Supervisory Authorities and a separate opinion from ESMA (2024)
- Study prepared for the ECON Committee (2024)
- Member State Expert Group meetings (12/2024, 06/2025)
- Call for Evidence (05/2025)
- Ongoing other continuous engagement

3. Problem definition

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- Based on evaluation and identification of problem drivers (Annex 11)
- FMPs: Difficulties to use SFDR concepts and uncertainty about compliance; high costs; additional national requirements
- Investors: Difficulties to understand and compare ESG products; confusion due to misleading categorisation practices
- Consequences:
  - Investors: risks of greenwashing and mis-selling; low levels of trust
  - FMPs: undue burdens & suboptimalities; competitive disadvantages compared to global peers
- Hindering efficient allocation of capital across the single market towards EU priorities

4. Objectives

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- **General objectives:** protect the integrity of and trust in the EU single market for sustainable finance and boost its effectiveness and efficiency to help fund EU sustainable prosperity
- **Specific objectives:** simplify administrative requirements in the framework and improve coherences; help end-investors to understand and compare ESG financial products
- Balance between **continuity and ambition**

5. Options considered

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- Repeal?
- Disclosures
  - Entity-level: reduction or removal?
  - Product-level: minimal or significant changes?
- Introduction of product categories
  - Two or three – sustainable, transition, other ESG?

6. Analysis of options: relative pros/cons

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- Repeal – simplification outweighed by loss of ESG product data & coherence issues, including with Omnibus. Not called for by stakeholders.
- Entity-level – removal seen as more effective and coherent (incl. with Omnibus) than more limited changes; loss of PAI entity data not seen as critical. Preferred by stakeholders.
- Product-level – significant changes seen as most conducive to achieving objectives of simplification and more efficient transparency to investors. Stakeholders broadly in favour.
- Categories – three categories (sustainable, transition, other ESG) seen as better than alternatives in terms of coverage, flexibility, clarity and link with distribution and marketing/naming rules. Preferred among stakeholders.

6. Analysis of options: impacts

Entity-level	Repeal	Reduction	Removal
Effectiveness	+/-	+	++
Efficiency	+/-	+	+++
Coherence	---	0	+++

Product-level	Repeal	Minimal change	Significant change
Effectiveness	+/-	+	+++
Efficiency	+/-	0	+++
Coherence	--	0	0

Categories	3 – S, T, other ESG	2 – S, T	2 – S, other ESG
Effectiveness	+++	+	+/-
Efficiency	++	++	+/-
Coherence	+++	+	+/-

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Legislative proposal

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1. **Scope** *(slide 11)*
2. **Categorisation system** *(slides 12 to 18)*
3. **Special considerations for categories** *(slides19 to 21)*
4. **Disclosures** *(slides 22 to 24)*
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6. **Limited L2 empowerment** *(slide 26)*
7. **Coherence with EU SF framework** *(slides 27 to 29)*
8. **Links with international frameworks** *(slide 30)*

1. Scope

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Financial advisers and service of portfolio management are carved out of scope

- **Financial advisers** do not manufacture or manage products, or do they make such products available to investors. Their role is rather as distributors to identify the products made available by financial market participants that match their clients' sustainability preferences. SFDR amendments should therefore be reflected in the rules for distributions (under MiFID and IDD level 2 rules) at a later stage.

- **Portfolio management services** are carried out based on mandates provided by individual clients, which are therefore distinct from products offered to investors more broadly. However, portfolios managed in accordance with the SFDR criteria can be included in the disclosures of financial market participants on the extent to which they invest in SFDR categorised products offered by other providers or in portfolio managed in accordance with the criteria for the categories (see slide 19 on Article 9a).

Same scope of financial products

- **Alternative funds marketed solely for professionals remain in scope –** deemed as necessary for the transparency and comparability objectives and to ensure a level playing field between all financial products. The considerable flexibility in the types of investment approaches that can be accommodated in the criteria should also ensure that the categories work for alternative investment funds.

- **Pension funds and insurance-based investment products remain in scope** and are granted an extra year to apply the revised framework given that they are not already applying the ESMA fund name guidelines. Possible difficulties to achieve the sustainable and transition categories (slide 20 on the differential treatment of sovereign debts).

2. Categorisation system: general approach

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Broad categorisation system clustering the ESG market into 3 groupings:

- **Sustainable category (Article 9):** products investing in companies, activities or assets that are already sustainable or pursue a (or several) sustainability objective(s).

- **Transition category (Article 7):** products investing in companies, activities or assets that are transitioning (to become sustainable) or pursue a (or several) transition objective(s).

- **ESG basics category (Article 8)**: products integrating other sustainability considerations beyond sustainability risks in their investment strategy (objective: higher ambition and stricter expectations than current Article 8.

Categories are **voluntary**, **mutually exclusive,** and are distinguished in terms of the ESG claims made by the FMP. Their objectives are to combat greenwashing, facilitate end-investors understanding of products' ESG strategies, objectives and ambitions, and allow for an efficient distribution system based on investors' sustainability preferences.

Non-categorised products would fall under **Article 6** or **Article 6(a)** (see slide 23). Products investing in other products fall under **Article 9(a)** and can be categorised.

2. Categorisation system: naming and marketing rules

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Categories play an important role in the **ESG naming and marketing rules** and in setting what type of ESG elements can be included in the **legal documentation.**

- **ESG claims in names, marketing documentation and KIID are exclusively reserved to categorised products** (i.e. products complying with the criteria defined under Art.7, 8 and 9). Such claims must be consistent with the category under which they fall and their strategies (e.g. transition).
- **Non-categorised products** may disclose non-central ESG elements voluntarily in their legal documentation, as per Article 6a (i.e. pre-contractual and periodic documentations, excluding KIID).

Documents	Non-categorised products (Article 6 or Article 6a)	Categorised products (Article 7, 8 and 9)	Non-categorized products (Article 9a) – see slide 11
Name of product	Not allowed	Allowed	Not allowed
Marketing documentation	Not allowed	Allowed	Allowed
Legal documentation	Allowed in a non-central way	Allowed, without limitation	Allowed without limitation
KIID	Not allowed	Allowed	Not allowed

2. Categorisation system: accompanying criteria

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Guiding principles to ensure the usability of the categories:

- **Striking the right ambition** – high enough to meet investors' expectations and fight greenwashing vs. reflecting the current state of the market (to ensure categories catch a reasonable portion of existing products).

- **Sufficient level of continuity** – with good market practices and existing rules, especially under the ESMA guidelines on funds names (apply since November 2024).

- **Increasing clarity** – simplifying and clarifying the underlying concepts of 'sustainable investment' to harmonise implementation and supervisory expectation.

- **Measurable and possible to estimate** – when the data is not available from the underlying assets, especially in light of the omnibus proposal on sustainability reporting (i.e. changes to corporate reporting under EU Taxonomy and CSRD).

2. Categorisation system: accompanying criteria

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The criteria build on the deleted definition of 'sustainable investment' and simplifies its underlying concepts: '*contribution*' (pillar 1); '*do no significant harm*' and '*good governance*' (pillar 2).

Pillar 1: positive contribution to ensure a harmonised level of ambition

- **Minimum proportion of 70% of the portfolio to be covered** by the strategy used to attain the core ESG objective(s)/feature(s). FMPs remain free to set their objective and how they achieve it. They are required to disclose the objective, the methodology and KPIs used, and to regularly assess their progress.
- **Open list of established standards and metrics** which can be used to implement and disclose the contribution.

Pillar 2: minimum safeguards to ensure no harm

- **Minimum exclusions covering the whole portfolio:** clear list of industries and activities that products cannot invest in. They build on the exclusions defined under the EU Climate Benchmarks.
- **Identification and disclosure of principal adverse impact** for the sustainable and transition category: deleting the obligation to 'consider' and to use the pre-defined principal adverse impact indicators (to be revised and made voluntary). This allows for more flexibility and reduce the reliance on CSRD data. It also clarifies the regulatory expectations and allows for better comparability and underlying of the products' ESG performance.

2. Categorisation system: sustainable category

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Pillar 1:

70% of investments meeting a clear and measurable sustainability-related objective

- ✓ **EU Paris-aligned Benchmark (PAB)**
- ✓ **Taxonomy-aligned economic activities** *(15% of alignment sufficient to fulfil pillar 1)*
- ✓ **EU Green bond standards**
- ✓ Undertaking or project benefitting from **EU budget programmes** pursuing environmental or social objectives
- ✓ **Eu SEF**
- ■ Other investments contributing to an environmental or social objective provided proper justification

Pillar 2: minimum safeguards

- ✗ **PAB exclusions*** (violations of HR, tobacco, prohibited weapons, coal, oil, fuel)
- ✗ **Companies developing new fossil fuel activities**
- **Identification and disclosure of the principal adverse impacts** on sustainability factors, and explanation of any actions taken to address those impacts → FMPs free to set their own methodology, PAI indicators voluntary.

Safe harbour for financial products replicating or managed in reference to a PAB

L2 to define voluntary indicators and specify certain conditions for eligible investment approaches

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**in cases of investment in use of proceeds instruments, the exclusions apply at the level of the economic activity/projects funded by the instruments (same across the 3 categories)*

2. Categorisation system: transition category

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Pillar 1:

70% of investments meeting a clear and measurable transition objective

- ✓ **PAB or CTB (climate transition benchmarks)**
- ✓ **Taxonomy-aligned economic activities** *(15% of alignment sufficient to fulfil pillar 1)*
- ✓ **Companies or activities with a credible transition plan or science-based target**
- ✓ Investments accompanied with a **credible sustainability-related engagement strategy**
- ✓ **Credible transition target set the level of the portfolio**
- ✓ **Investments eligible to the sustainable category**
- ■ Other investments contributing to an environmental or social transition objective provided proper justification

Pillar 2: minimum safeguards

- ✕ **CTB exclusions** (violations of HR, tobacco, prohibited weapons) **and coal exclusion**
- ✕ **Companies developing new fossil fuel activities**
- **Identification and disclosure of the principal adverse impacts** on sustainability factors, and explanation of any actions taken to address those impacts → FMPs free to set their own methodology, PAI indicators voluntary.

Safe harbour for financial products replicating or managed in reference to a PAB or CTB

L2 to define voluntary indicators and specify certain conditions for eligible investment approaches

2. Categorisation system: ESG basics category

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Pillar 1:

70% of investments integrating sustainability factors

- ✓ **ESG rating outperforming the investment universe/reference benchmark**
- ✓ **Outperforming the investment universe/reference benchmark on a specific sustainability-related indicator**
- ✓ **Companies or activities with proven sustainability-related positive track record**
- ✓ **Investments eligible for the sustainable or transition category**
- Other investments integrating sustainability factors beyond sustainability risks provided proper justification

Pillar 2: minimum safeguards

✕ **CTB exclusions** (violations of HR, tobacco, prohibited weapons) **and coal exclusion**

L2 to define voluntary indicators and specify certain conditions for eligible investment approaches

3. Special considerations: funds of funds

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The SFDR foresees two scenarios for financial products combining different financial products. Under both scenarios, funds of funds can rely on information provided by the product providers or portfolio managers.

- **Funds of funds can be categorised:** provided they invest in accordance with the criteria (investing 70% in categorised products and applying the exclusions across the rest of the product.
  - **Sustainable category** – if they invest 70% in products falling under the sustainable category.
  - **Transition category –** if they invest 70% in products falling under transition or a mix of sustainable and transition.
  - **ESG basics –** if they invest 70% in products falling under ESG basics or a mix of any of the categories.

- **Funds of funds can disclose their underlying categorised products without being categorised:** if they fall short of the 70%, they can disclose information about the relative share of investments in categorised products to their investors (e.g. pension holders) in their regulatory and marketing documentation. They cannot use ESG terms in their names (which are exclusively reserved to categorised products).

3. Special considerations: sovereign debts

Article 7 and 9

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Treatment of sovereign debt

General purpose sovereign debt:

- **Exclusions** under pillar 2 cannot apply to general sovereign debt.
- **Sustainable and transition category:** cannot be included in the 70% contribution threshold towards sustainable or transition related objective but can be included in the remainder 30% if FMP can demonstrate that such investment is consistent with the ESG objective of the product.
- **ESG basics:** can be included in the 70% thresholds using FMPs' chosen methodology.

Sovereign use-of-proceeds instruments (including EU GB):

- **Exclusions** shall apply to use of proceeds
- Can be included in the 70% thresholds across all categories by applying the categories' criteria.

Article 2, 7 and 9

3. Special considerations: impact investing

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Special recognition given to products conducting impact investing under the sustainable and transition categories

- **Definition of impact investing introduced under Article 2(26)**: *'a financial product categorised in accordance with Article 7 (transition) or 9 (sustainable) that has as its objective the generation of a pre-defined, positive and measurable social or environmental impact'.*

- **Transparency obligations related to the key characteristics of impact investing** (subparagraph 4 of Art.7 and 9)**:**
  - Intended impact(s) in terms of specified environmental or social objective, underpinned by a pre-set impact theory
  - Provisions to measure, manage and report on the desired impact, including in terms of investments by the product and the investors' contribution

- **Impact-related terms** in products' names are exclusively reserved for products falling under the definition of Article 2(26) and complying with the additional transparency obligations described above.

Article 3, 4 and 5

4. Disclosures: entity level

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Significant reduction of entity-level disclosures

- **Retaining of disclosures on sustainability risk policies** (Article 3)
- **Deletion of disclosures on the consideration of sustainability risks in remuneration policies and principal adverse impacts** (Article 4 and 5)

This addresses current overlaps between the CSRD and the SFDR and aligns with the objectives of the Commission's Omnibus I simplification package from February 2025. These measures would significantly reduce the implementation costs associated with the SFDR.

Largest FMPs falling under CSRD would continue to report against the ESRS (subject to final scope, under negotiation).

Article 6, 6a, 7, 8, 9 and 10

4. Disclosures: product level

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Significant reduction of product-level disclosures

- **Retaining disclosures on sustainability risks for all financial products** (Article 6)
- **Voluntary ESG disclosures (of ancillary nature) for non-categorised products** (Article 6a)
- **Simplified ESG disclosures for categorised products** (Article 7, 8 and 9). Moving away from standardized questions and towards more flexible format focusing on the key criteria underpinning the proposed products categories. Reporting must rely on data that is available, comparable and meaningful to end-investors.
- **Retaining website disclosures and aligning them with product level disclosures** (Article 10)

4. Disclosures: product level

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Main elements of disclosure for sustainable and transition category

- The **category** under which the product falls
- A description of the sustainability/transition related **objective(s)**
- A description of the sustainability/transition **strategy** to achieve the objective
- The **investment approaches and metrics** of the strategy (e.g. EU climate benchmarks, taxonomy etc).
- If the product pursues an environmental objective, whether the product uses the **EU Taxonomy**
- The **sustainability-related indicator(s)** chosen to measure progress towards the objective(s)
- **Data sources**

Main elements of disclosure for ESG basics category

- The **category** under which the product falls
- A description of the **sustainability factors** that the product integrates
- A description of the **strategy, the investment approaches** and the chosen **sustainability indicators**

Article 12a

5. Data and estimates

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Estimation permitted throughout with transparency towards investors (upon request)

- FMPs must ensure that the use of estimates (generated in-house or provided by external providers) is based on formalized and documented arrangements.
- If generated in-house: FMPs must be able to provide methodology, main assumptions and precautionary principles regarding the treatment of missing datapoints.
- If external data providers: FMPs must be able to provide the name of providers and methodology used (when available).

7. Limited L2 empowerments

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Delegated Act to specify elements of the categories' criteria and disclosures

Criteria:

- Development of **voluntary sustainability-related indicators** to measure progress towards the objective/integration of sustainability factors (contribution pillar 1) and for the identification and disclosure of adverse impacts (Pillar 2). Such indicators should build on the current ESRS (CSRD) and PAIs (current SFDR DA).
- **Methodologies to calculate or implement the metrics/investment approaches** that FMPs can use to demonstrate their contribution/integration of sustainability factors.
- Specifying **certain conditions for investments approaches to qualify** for the 70% thresholds (e.g. EU budget investments, 'credible'…)
- **Review clause** 36 months after application.

Disclosures:

- Templates for categorised products (pre-contractual and periodic documentation) which shall not exceed 2 pages.
- Additional disclosures for impact products which shall not exceed 1 page.
- Consumer testing exercises to inform on the best format.

8. Coherence with the wider EU SF framework

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EU Taxonomy

- 'Environmental objectives' defined as the ones of the EU Taxonomy
- Taxonomy-alignment as one of the metrics eligible for sustainable and transition category
- Products pursuing an envionmental objective must state whether they use the EU Taxonomy
- **'Safe harbour': products whose Taxonomy-alignment is 15% or higher are deemed to meet the 70% positive contribution threshold.**

EU Climate Benchmarks

- PAB and CTB as one of the approaches eligible for the sustainable and transition categories
- **'Safe habour': products that replicate or are managed in reference to an EU Climate Benchmark are deemed to fulfill all criteria of the sustainable category (PAB) or of the transition category (PAB and CTB)**

8. Coherence with the wider EU SF framework

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Distribution rules under MiFID and IDD

- Categories should help distributors identify the products that match their clients' sustainability prefrences and perform their target market assessment.
- Categories and amended disclosures should therefore be reflected in the rules applicable under Commission Delegated Regulation (EU) 2018/565, Commission Delegated Directive (EU) 2017/593, and Commission Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359.

CSRD and omnibus I

- Reduction of the reporting burdens. Deletion of PAI reporting at entity level and the use of PAIs to identify and disclose principal adverse impacts of products are made voluntary.
- Future voluntary indicators (for contribution and for identifying and disclosing adverse impacts) to be aligned with ESRS.

8. Coherence with the wider EU SF framework

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Amendments to PRIIPs

- Disclosures to be included in the key information document for categorised products to indicate which category they fall under.

European single access point (ESAP)

- FMPs will continue to submit SFDR information to the relevant collection body for the purpose of making it accessible under ESAP.

9. Links with international frameworks

Reference to international sustainability-related metrics/standards

Sustainable and transition categories recognise the eligibility of certain international standards as long as FMPs can justify high level of performance in terms of sustainability standards (e.g. international taxonomies).

Possibility to estimate the performance of non-EU assets

Estimations can be used to calculate the performance of non-EU assets against EU framewor, e.g. EU Taxonomy.

UK SDR (investment labels)

- Similarities (e.g. 70% thresholds and obligaiton to identify and disclose adverse impacts) to facilitate international convergence.
- EU rules remain more ambitious including through the implementation of common binary exclusions.

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Thank you





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