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MEETING DOCUMENT

From:	General Secretariat of the Council
To:	Working Party on Financial Services and the Banking Union (Sustainable Finance) Financial Services Attachés
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Subject:	SFDR - Working Party of 23 February 2026 - Commission presentation

SFDR review

Third Council Working Party

February 2026

3rd CWP

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1. Article 9a
2. Contribution criteria under each category and open list drafting
3. Data and estimates
4. Disclosures
5. Implementation timeline

1. Article 9a

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

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

- **Portfolios/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).

2. Contribution criteria for the transition category (1/4)

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- **EU climate transition benchmarks (PAB and CTB):** ambitious decarbonisation targets and exposure to high climate impact sectors. PABs and CTBs represented 230bn EUR in Q4 2025. Main strategy of 20% of funds with climate transition-related claims.
- **Taxonomy-aligned economic activities:** all KPIs eligible.
- Companies or activity with a *credible* **transition plan:** at least one sustainability factor at the level of the undertaking or at activity level, proportionate to the size of the undertaking.
- Companies or activity with a *credible* **science-based target**.
- Investments accompanied with a *credible* **sustainability-related engagement strategy:** includes targeted changes, defined milestones and escalation plans. Must be conducted in combination with other approaches.
- *Credible* **transition target set the level of the portfolio:** used by 76% of funds with transition-related claims.
- Investments eligible to the **sustainable category**

'Credible' for climate related claims: *'compatible with the objective of limiting global warming in line with the Paris Agreement and the objective of reaching climate neutrality in line with the EU Climate Law'.*

Level 2 empowerments: possibility to specify: (1) methodologies and conditions for eligible investment approaches; (2) 2$_4$sets of voluntary indicators for calculating and disclosing the contribution and the principal adverse impacts (building on existing indicators). Review clause after 36 months.

2. Contribution criteria for the ESG basics category (2/4)

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- Investments with an **ESG rating outperforming the investment universe/reference benchmark.**
- Investments **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.**

Level 2 empowerments: possibility to specify: (1) methodologies for calculation and conditions for eligible investment approaches; (2) voluntary indicators for calculating and disclosing the ESG performance. Review clause after 36 months.

2. Contribution criteria for the sustainable category (3/4)

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- **EU Paris-aligned Benchmark (PAB)**.
- **Taxonomy-aligned economic activities** (all KPIs eligible).
- **EU Green bond standards.**
- Undertakings or projects benefitting from **EU budget programmes** pursuing environmental or social objectives.
- Investments in **European social entrepreneurship funds (EuSEF):** companies and projects with a clear social mission.

Level 2 empowerments: possibility to specify: (1) methodologies for calculation and conditions for eligible investment approaches; (2) 2 sets of voluntary indicators for calculating and disclosing the contribution and the principal adverse impacts (building on existing indicators). Review clause avec 36 months.

2. Open list for the contribution criteria – all categories (4/4)

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'other investments in undertakings, economic activities or other assets that [credibly contribute to the transition (Art.7) / contribute to an environmental or social objective (Art.9) / integrate sustainability factors beyond the consideration of sustainability risks' (Art.8)] provided proper justification is included in the disclosures.'

Level 2 empowerment: possibility to further define/standardise the 'proper justification' (e.g. approach and methodology; binding elements of the strategy; measurement and indicators).

3. 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 external data providers: FMPs must be able to provide **upon clients request** the name of providers and methodology used (when available).
- If generated in-house: FMPs must be able to provide **upon clients request** methodology, main assumptions and precautionary principles regarding the treatment of missing datapoints.

Article 3, 4 and 5

4. Disclosures (1/3)

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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)

These measures would significantly reduce the implementation costs associated with the SFDR and align with the objectives of the Commission's Omnibus I simplification package from February 2025.

Largest FMPs falling under CSRD would continue to report against the ESRS (ongoing drafting of the simplified ESRS).

Article 7, 8, 9 and 19b

4. Disclosures (2/3)

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Significant reduction of the sustainability reporting templates for categorized products

Moving away from standardized questions and towards more flexible format focusing on the key criteria underpinning the proposed products categories.

- The **category** under which the product falls and statement that it complies with the criteria.
- **Contribution**: the objective(s), strategies (per shares of the portfolio), any phase-in period, and indicator(s) chosen to measure progress towards the objective(s) (possibility to use voluntary indicators). For sustainable and transition category: if the product pursues an environmental objective, whether the product uses the **EU Taxonomy.**
- **Exclusions and adverse impacts**: implementation of the exclusions (and any additional exclusions) and disclosure of principal adverse impacts for sustainable and transition category (possibility to use voluntary indicators)
- **Data sources**

Level 2 empowerment: templates for categorized products which shall not exceed 2 pages with additional 1 page for impact related disclosures.

4. Disclosures (3/3)

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Voluntary (limited) ESG disclosures for non categorised products

Non-categorised products may disclose ESG elements voluntarily in their legal documentation provided that such information:

- Is not a central element of the pre-contractual disclosures → *'secondary to the presentation of the product characteristics both in terms of breadth and positioning in the documentation, neutral, and limited to less than 10% of the volume occupied by the presentation of the financial product's investment strategy".*
- Is not included in the KIID or KID, the name and the marketing documentation
- Does not constitute a claim within the meaning of the categories (e.g. sustainable or transition objective)

Amendments to PRIIPs: Disclosures to be included in the **key information document** for categorised products to indicate which category they fall under.

Article 17, 18a, 19, 19a, 4

5. Implementation timeline

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- **Application dates:**
  - **18 months after entry into force** → SFDR level 1, SFDR level 2 and MiFID/IDD level 2.
  - **Additional 12 months for pension and insurance products** (IBIP, pension products and scheme, PEPP).
  - No grandfathering regime foreseen for existing Article 8 and 9 products (but exemptions for closed-ended products which were created and distrbuted before the date of application).
- **ESAP:** FMPs will need to submit SFDR information to the relevant collection body from **18 month after the date of application.**
- **Review clause: 36 months after the date of application.**

Thank you

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