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From:	General Secretariat of the Council
To:	Working Party on Financial Services and the Banking Union (Sustainable Finance) Financial Services Attachés
Subject:	SFDR Review - CWP 4 May 2026 - German non-Paper on the Review of the Sustainable Finance Disclosure Regulation

German non-Paper on the Review of the Sustainable Finance Disclosure Regulation

April 2026

I. Problem description: "credible" in the transition category

Within the transition category, several investment approaches have been introduced that could qualify as eligible. These approaches include best market practices, e.g. transition plans, science-based targets and others. While we agree that these investment approaches are included, we are not sure how the almost universally introduced qualifier, the term "credible", can be meaningfully operationalised.

We understand the term as a greenwashing protection effort, i.e. to prevent FMPs from designing TCFP that do "not really" invest into transitioning companies or activities. **The discussion within the council working party has however shown that interpretations of what "credible" means is ambiguous as it is unclear whether it is referring to**:

a) the ambition of an investment with regard to a sustainability objective (e.g. 1.5 °C, social objectives),

b) the credibility that certain claims by an investee company are actually pursued, and that the FMP monitors that progress and acts (i.e. divestment) if those claims are not met, or

c) the credibility that investments taken on behalf of the TCFP are in line with the investment objective of the financial product offered by an FMP.

This ambiguity adds confusion as to what FMPs will actually have to do to show an investment on behalf of a TCFP is "credible".

The presidency has consequently proposed two different drafting proposals to provide further guidance. However, in our view, these solutions do not provide sufficient clarity with regard to what is to be understood under "credible" as the proposals do not include a reference to the term and seem to primarily add additional transparency requirements for transition investment approaches. The above-described ambiguity of what "credible" means, however, still remains.

II. What we propose – Credible with regard to the investment objective

We understand the SFDR as a principles-based product regulation. TCFPs market a certain transition objective to investors. Therefore, FMPs that invest on behalf of the TCFP have to make sure that the investments are in line with that communicated transition objective. Greenwashing protection in such a system can therefore only be measured against the claims made on the level of an individual product. It follows that "credibility" of an investment on behalf of a TCFP can, in our view, only mean that

the investments on behalf of the TCFP have to be in line with the product's marketed and disclosed investment objective as described under Article 7(1) (a).

Following this interpretation, FMPs investing on behalf of the TCFP have to implement adequate processes to invest according to the claims made on the product level. According to the AIFMD and UCITS Directive as well as under Solvency II (prudent person principle) these processes already have to be in place as of now, and serve as a strong consumer protection mechanism i.e. for traditional products.

In order to clear up possible misinterpretations of the term "credible" and at the same time making sure strong greenwashing protection in the sense of adequate investment processes on the level of the FMP are in place, two possible ways forward are possible in our view:

> Option 1 – Revise the wording in the investment approaches so that it clearly links to the investment objective of the TCFP instead of using the ambiguous term "credible".
>
> Option 2 – Spell out that credibility means that an FMP has in place adequate processes and methods to make investments in line with the transition objective of the respective TCFP.

As Option 1 would entirely avoid using the undefined term "credible", it seems to be best suited to improve clarity and practicability of the SFDR 2.0.

It should be kept in mind that with regard to the climate objective, any approach must be in line with the Paris Agreement/EU Climate Law as prescribed under Article 7 (2) last paragraph. Also, for other objectives, the proposals do not change the underlying logic with regard to the transition objective of the financial product and thus keep the overall ambition of the category as before. The strong consumer and greenwashing protection mechanisms, based on the principles of minimum investment thresholds, meaningful transparency requirements and adequate exclusions will thus remain in place in both cases.

III. Drafting proposals

Option 1

Article 7 Transition category: criteria and disclosures

[…]

2. Investments by financial products as referred to in paragraph 1, first subparagraph, point (a), shall include any of the following:

> (a) investments in portfolios replicating or managed in reference to an EU climate transition benchmark or EU Paris-aligned benchmark ('EU climate benchmarks');
>
> (b) investments in taxonomy-aligned economic activities as defined in Article 1, point (2), of Commission Delegated Regulation (EU) 2021/2178, including:
>
> > (i) transitional economic activities as referred to in Article 10(2) of Regulation (EU) 2020/852;
> >
> > (ii) taxonomy-eligible economic activities becoming taxonomy-aligned in accordance with point (b) of the first sub-paragraph of Section 1.1.2.2. of Annex I of Delegated Regulation (EU) 2021/2178;
>
> (c) investments in undertakings or economic activities with a ~~credible~~ transition plan ~~at least one sustainability factor~~ **in line with the financial products transition objective set out according to paragraph (1) (a)** at the level of the undertaking or at activity level respectively, proportionate to the size of the undertaking;
>
> (d) investments in undertakings or economic activities with ~~credible~~ science-based targets **in line with the financial products transition objective set out according to paragraph (1) (a)** that are supported by information ensuring integrity, transparency and accountability;

(e) investments accompanied with a ~~credible~~ sustainability-related engagement strategy **in line with the financial products transition objective set out according to paragraph (1) (a)** targeting specific changes with defined milestones and measured with reference to those targets and milestones, and integrating escalation actions in case the expected changes do not happen in combination with any of those referred to in points (a) to (d) or (h);

(f) investments pursuant to Article 9(2) in combination with any of those referred to in points (a) to (e);

(g) investments with a ~~credible~~ transition target set at the level of the portfolio, such as reduction of portfolio emissions over time, **that are in line with the financial products transition objective set out according to paragraph (1) (a)**;

(h) other investments in undertakings, economic activities or other assets that ~~credibly~~ contribute to the transition **in line with the financial products transition objective set out according to paragraph (1) (a)**, provided proper justification is included in the disclosures required pursuant to paragraph 3.

Where the financial product aims at meeting a clear and measurable transition towards the climate change mitigation objective, the ~~credible~~ transition plans, science-based targets and sustainability-related engagement strategy referred to in the first subparagraph points (c) to (e), the ~~credible~~ transition target set at the level of the portfolio referred to in letter (g) and the ~~credible~~ contribution referred to in letter (h), shall be compatible with the transition to a sustainable economy and with the limiting of global warming in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119.

[…]

Option 2

Article 7 Transition category: criteria and disclosures

[…]

2. Investments by financial products as referred to in paragraph 1, first subparagraph, point (a), shall include any of the following:

(a) investments in portfolios replicating or managed in reference to an EU climate transition benchmark or EU Paris-aligned benchmark ('EU climate benchmarks');

(b) investments in taxonomy-aligned economic activities as defined in Article 1, point (2), of Commission Delegated Regulation (EU) 2021/2178, including:

(i) transitional economic activities as referred to in Article 10(2) of Regulation (EU) 2020/852;

(ii) taxonomy-eligible economic activities becoming taxonomy-aligned in accordance with point (b) of the first sub-paragraph of Section 1.1.2.2. of Annex I of Delegated Regulation (EU) 2021/2178;

(c) investments in undertakings or economic activities with a credible transition plan as regards at least one sustainability factor at the level of the undertaking or at activity level respectively, proportionate to the size of the undertaking;

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(d) investments in undertakings or economic activities with credible science-based targets that are supported by information ensuring integrity, transparency and accountability;

(e) investments accompanied with a credible sustainability-related engagement strategy, targeting specific changes with defined milestones and measured with reference to those targets and milestones, and integrating escalation actions in case the expected changes do not happen in combination with any of those referred to in points (a) to (d) or (h);

(f) investments pursuant to Article 9(2) in combination with any of those referred to in points (a) to (e);

(g) investments with a credible transition target set at the level of the portfolio, such as reduction of portfolio emissions over time;

(h) other investments in undertakings, economic activities or other assets that credibly contribute to the transition, provided proper justification is included in the disclosures required pursuant to paragraph 3.

Where the financial product aims at meeting a clear and measurable transition towards the climate change mitigation objective, the credible transition plans, science-based targets and sustainability-related engagement strategy referred to in the first subparagraph points (c) to (e), the credible transition target set at the level of the portfolio referred to in letter (g) and the credible contribution referred to in letter (h), shall be compatible with the transition to a sustainable economy and with the limiting of global warming in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119.

To ensure credibility of the investment approaches under points (c) to (h) of the first subparagraph, Financial Market Participants shall, in line with sector specific regulation,

(i) implement an appropriate, documented and regularly updated due diligence process when investing on behalf of a financial product in line with the transition objective under paragraph 1, first subparagraph, point (a); and

(ii) implement appropriate monitoring processes to assess the progress made and have in place adequate strategies to deal with underperforming investments or underperformance at the level of the portfolio with regard to the transition objective under paragraph 1, first subparagraph, point (a).

Financial Market Participants shall review the processes and strategies mentioned in the third subparagraph with appropriate frequency but at least once a year and adapt them whenever necessary.

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