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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 - Spanish non-paper for the inclusion of general-purpose sovereign debt under Art. 7

Non-paper for the inclusion of general-purpose sovereign debt under Art. 7

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1. Rationale

(a) Level playing field with corporate issuers

Article 7(2)(c) already allows general-purpose corporate bonds to count towards the transition category where the issuing company has a credible transition plan covering at least one sustainability factor. **Sovereign issuers have directly analogous instruments:** nationally determined contributions (NDCs), national energy and climate plans (NECPs), net-zero strategies, and transition pathways anchored in the EU Climate Law. The assessability of a sovereign issuer's transition credentials is no lower than that of a corporate issuer and is in many cases higher given the binding and publicly available character of the relevant instruments.

(b) Preserving incentives for use-of-proceeds instruments

Confining the general-purpose sovereign pathway to Article 7 preserves the strong incentive for public sector bodies to issue use-of-proceeds instruments. **Sovereign green, social and sustainability bonds remain the exclusive pathway to qualifying under Article 9.** This maintains the premium that such instruments attract in sustainable capital markets and is consistent with the policy objective of deepening EU sustainable bond markets.

(c) Structural distortion for insurance and pension products (and why neutralisation is not the right remedy)

Products in the insurance and pension sectors are often subject to prudential requirements imposing material allocations to sovereign bonds. **Under the Commission's proposal, those bonds appear in the denominator of the 70% threshold for Articles 7 and 9 but not in the numerator. This creates a mathematical penalty unrelated to the product's sustainability ambition** and affects structurally exposed products regardless of the quality of their remaining investment decisions.

A possible response is to neutralise general-purpose sovereign bonds entirely so as to remove their penalising effect on the 70% calculation. While this would address the mathematical distortion, it is not the preferred approach. **Neutralisation keeps sovereign bonds in a residual position within the categorisation architecture without providing any substantive criteria for assessing their potential contribution to sustainability objectives**.

Neutralisation also creates transparency and comparability problems. Products with materially different sovereign debt profiles would present identical indicators, making it harder for investors to distinguish between strategies with genuinely different sustainability characteristics. The more structurally coherent solution is to integrate general-purpose sovereign bonds into the categorisation framework on the basis of substantive criteria, so that their eligibility reflects a real sustainability assessment rather than a technical accounting adjustment.

2. Drafting proposals

(a) Recital 22

A new text in this recital provides the interpretative context for the amendment to Article 7 and sets out the key orientations that should inform its application:

(22) General-purpose bonds issued by public sector bodies represent a significant share of EU capital markets and of the investment universe of many financial market participants subject to this Regulation. Under the transition category, financial market participants may invest in undertakings or economic activities with credible transition plans. In the interests of consistency and of a level playing field between corporate and sovereign issuers, it is appropriate to establish an equivalent eligibility pathway under which general-purpose issuances by public sector bodies may count towards the relevant threshold under Article 7(1)(a), subject to a demonstration, based on credible, verifiable and publicly available information, that the issuer's transition strategy and expenditure policies meet defined criteria. Those criteria should be anchored in the EU Climate Law and, for third-country issuers, in the Paris Agreement, and should be evidenced by the submission of nationally determined contributions or equivalent national instruments and by the adoption of domestic policies and measures implementing those commitments. Formal adherence to the Paris Agreement or a general commitment to its objectives is not sufficient; financial market participants should demonstrate that the issuer is actively implementing policies and measures consistent with its stated commitments. The additional eligibility pathway is confined to the transition category. The sustainable category under Article 9 is reserved for use-of-proceeds instruments, which remain the appropriate vehicle for the highest level of sustainability ambition and the exclusive pathway for sovereign bonds qualifying under that category. Financial market participants that rely on this pathway should reflect the basis of that assessment in the periodic reports referred to in Article 10.

(b) Article 7(1), last subparagraph

A new point (c) is proposed for the last subparagraph of Article 7(1), creating a third eligibility pathway for general-purpose sovereign bonds subject to two substantive conditions:

- The conditions in point (c)(i) are designed to mirror the logic of Article 7(2)(c), under which general-purpose corporate bonds may qualify where the issuer has a credible transition plan: the same principle is applied to sovereign issuers by reference to their functional equivalents — NDCs, NECPs and net-zero strategies, supported by implementing domestic policies and measures.
- The exclusion floor in point (c)(ii) mirrors the test applicable under point (b) to use-of-proceeds instruments, ensuring structural consistency across the three pathways. The conditions in point (c)(ii) are proposed without prejudice to any amendments to the exclusion criteria under Article 7(1) that may be agreed in the course of Working Party discussions; any such amendments would apply consistently to point (c)(ii).

The first subparagraph, point (a) shall not include investment in issuances by public sector bodies, with the exception of ~~use of proceeds instruments issued by public sector bodies~~:

(a) use of proceeds instruments issued by public sector bodies in accordance with Article 3 of Regulation (EU) 2023/2631; or

(b) use of proceeds instruments issued by public sector bodies where the proceeds do not fund any underlying activities excluded under Article 12(1), points (a), (b) and (d), of Delegated Regulation (EU) 2020/1818 or companies excluded under Article 12(1), point (c), of that Regulation; or

(c) general-purpose issuances by public sector bodies in respect of which the financial market participant demonstrates, on the basis of credible, verifiable and publicly available information, that:

(i) the issuer has adopted a transition plan, national climate strategy or equivalent sustainability framework aligned with the objectives of the EU Climate Law or, for third-country issuers, with the objectives of the Paris Agreement, as evidenced by the submission of nationally determined contributions or equivalent national instruments and by the adoption of domestic policies and measures implementing those commitments; and

(ii) the issuer's expenditure policies do not to a significant extent fund activities excluded under Article 12(1), points (a), (b) and (d), of Delegated Regulation (EU) 2020/1818 or companies excluded under Article 12(1), point (c), of that Regulation.

Financial market participants that rely on point (c) shall reflect the basis of that assessment in the periodic reports referred to in Article 10.

An optional cap provision could also be included at the end of Article 7(1). The cap is presented as a separate drafting element for consideration and is not a precondition of the main proposal, with the 50% figure being illustrative. A cap at this level could ensure that products qualifying through the general-purpose sovereign pathway continue to derive part of their contribution pillar from other instruments — such as corporate bonds or use-of-proceeds holdings — while providing sufficient operational flexibility for products with structurally significant sovereign exposure.

[The contribution towards the threshold referred to in Article 7(1)(a) of issuances qualifying under point (c) shall not exceed [50]% of the total investments counted towards that threshold.]

3. Conclusion

The key features of the proposed amendments are as follows:

- **The eligibility pathway for general-purpose sovereign bonds is confined to the transition category under Article 7.** The sustainable category under Article 9 remains reserved for use-of-proceeds instruments, preserving the highest level of sustainability ambition and maintaining strong incentives for the issuance of sovereign green and sustainability bonds.
- **The pathway mirrors the logic of Article 7(2)(c).** The same principle that allows general-purpose corporate bonds to qualify for the transition category on the basis of a credible transition plan is applied to sovereign issuers by reference to their functional equivalents. The asymmetry of treatment between corporate and sovereign issuers in the Commission's proposal is accordingly removed.
- **The Paris Agreement alignment condition is specified operationally.** Formal adherence or general commitment is not sufficient; the assessment must be based on evidence of submitted NDCs and actual implementing domestic policies and measures. This addresses the concern that formal Paris alignment is a universal and therefore uninformative criterion.
- **Neutralisation — excluding general-purpose sovereign bonds from both the numerator and the denominator — is not the preferred approach.** It leaves sovereign bonds in a residual position without substantive sustainability criteria and creates transparency and comparability problems for investors.
- **The substantive conditions of eligibility under the new pathway are set out at Level 1, in the operative text of Article 7(1).** The pathway is self-executing on the basis of those conditions, without any requirement for prior adoption of delegated acts.
- **The disclosure obligation under the new pathway is addressed by way of a cross-reference to the existing periodic reporting framework under Article 10**, avoiding duplication with the general documentation requirements of Article 12a.

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