Council of the European Union
General Secretariat

PUBLIC

Brussels, 20 January 2026

WK 899/2026 INIT

LIMITE

EF
ECOFIN
ENV
CODEC

This is a paper intended for a specific community of recipients. Handling and further distribution are under the sole responsibility of community members.

MEETING DOCUMENT

From:	General Secretariat of the Council
To:	Working Party on Financial Services and the Banking Union (Sustainable Finance) Financial Services Attachés
N° Cion doc.:	ST 15751 2025 INIT
Subject:	SFDR - Working Party of 20 January 2026 - Commission presentation

SFDR review

Second Council Working Party

January 2026

2nd CWP

PUBLIC

1. Scope of application and Article 9a
2. Criteria: general structure and specific criteria per category
3. Sovereign debt
4. Naming and marketing rules
5. Limited L2 empowerment

1. Scope of application

PUBLIC

Entities and services: financial advisers and service of portfolio management 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).

1. Scope: portfolio management under Article 9a

PUBLIC

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).

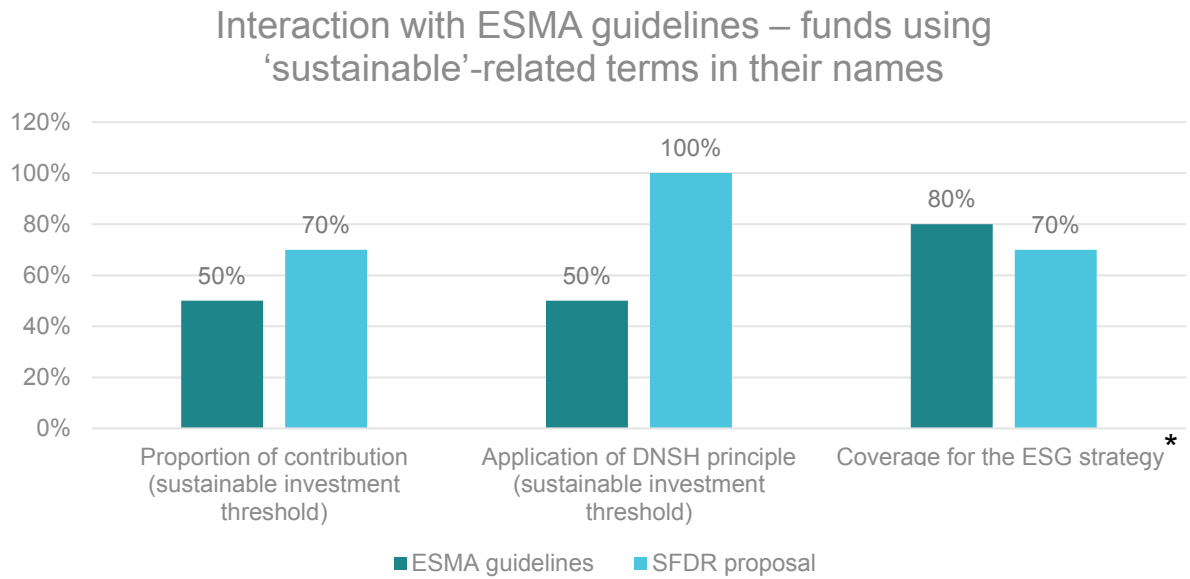
2. Criteria

PUBLIC

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.

Rationale behind the 70% threshold: increased ambition and simplification compared to ESMA guidelines and international convergence (UK SDR).



* 80% for the ESMA GL refers to the coverage of any ESG strategy linked to the claim made by a product. It does not need to include the concepts of 'contribution' or 'DNSH'.

European Commission

2. Criteria

PUBLIC

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

- **Open list of established standards and metrics** which can be used to implement and disclose the contribution.They build on market observations and existing EU framework.

  - ✓ *"Other investments in undertakings, economic activities or other assets that credibly [contributes to a sustainable objective/integrates sustainability factors] provided proper justification is included in the disclosures"*

  - ✓ Voluntary indicators to encourage harmonised measurement and disclosures – building on the principal adverse impacts and ESRS (CSRD)

  - ✓ The drafting of the open list should avoid creating an additional definition of 'sustainable investment'

2. Criteria

PUBLIC

✕ 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** while adding **additional climate exclusions.**

- **Identification and disclosure of principal adverse impact** for the sustainable and transition category: clarifying the current obligation to 'consider' principal adverse impact. Changes:

  - Moving from 'consider' to 'identify and disclose'

  - Removing the mandatory use of pre-defined indicators (which will be kept and improved). FMPs may choose their own indicators to any other methodology to identify and disclose the impact. This would reduce the reliance on CSRD data.

  - No new obligation to address the identified impact (but encouraged through the mandatory disclosure of any negative impacts to end-investors)

2. Criteria: transition category

PUBLIC

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. Criteria: ESG basics category

PUBLIC

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

2. Criteria: sustainable category

PUBLIC

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, gas, electricity generation with high GHG intensity)
- ✗ **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

**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)*

3. Criteria: sovereign debts

PUBLIC

Article 7, 8 and 9

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.

4. Categorisation system: naming and marketing rules

PUBLIC

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

Article 19b

Limited L2 empowerments

PUBLIC

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.

Thank you





© European Union 2023

Unless otherwise noted the reuse of this presentation is authorised under the CC BY 4.0 license. For any use or reproduction of elements that are not owned by the EU, permission may need to be sought directly from the respective right holders.

Points presented for the purposes of consultation – they do not pre-empt future decisions by the Commission

European Commission