

Sustainable Finance Disclosure Regulation ("SFDR") 2.0 review: implications and next steps





1. Context

SFDR 2.0 review: refining the EU's sustainable finance rules



SFDR has become a cornerstone of sustainable finance



SFDR (2019/2088): in force since 2021; a core pillar of the EU sustainable finance framework under the 2018 Action Plan on Financing Sustainable Growth



Main objective is to increase transparency, combat greenwashing, and enable informed decisions through detailed ESG disclosures at both entity and product level



Article 8 and 9 products represent ~50% of EU AuM and ~60% of EU funds; Europe accounts for ~84% of global sustainable fund assets.

Despite its strong market uptake and foundational role in the EU sustainable finance landscape, the SFDR has revealed important gaps and inconsistencies that need to be addressed to ensure clarity, comparability, and enable informed decisions.

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SFDR's rapid adoption has highlighted structural shortcomings that call for clearer rules and stronger alignment across the sustainable finance framework



Key issues identified

- ✓ Considerable complexity and costs for financial market participants
- ✓ Information provided to end-investors has generally not been clear or effective enough to help them understand and compare different sustainability-related financial products
- ✓ Articles 8 and 9 have also been used by the market in a misleading way to categorise financial products
- ✓ Divergent interpretations of the rules by national regulators



Rationale for review

- ✓ Simplify and streamline the disclosure regime (2025 EU Commission Work Programme)
- ✓ Reduce administrative burden and improve consistency
- ✓ Strengthen market integrity and limit greenwashing risks
- ✓ Enhance product comparability and EU financial sector competitiveness

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So, what has the European Commission presented?

1

New product categorisation model

- Replacing the current Articles 6, 8 and 9
- Introduction of a new set of product categories (Transition, ESG Basics, and Sustainable) with clearer definitions, thresholds, and exclusion criteria
- Enhanced consistency and comparability across sustainability-labelled products

2

Simplified Principle Adverse Impacts ("PAI") and disclosure obligations

- Entity-level reporting removed
- Transition and Sustainable strategies must identify and report on PAIs, including mitigation measures. EU Commission can define sample indicators, but they are voluntary
- Consolidation of disclosure formats to improve clarity and reduce administrative burden

3

Formal recognition of Impact Investing

- Recognition within the categories of Sustainable and Transition
- Establishment of a clear regulatory home for impact strategies
- Introduction of requirements for impact objectives, KPIs, and Impact Measurement and Management ("IMM") frameworks



This proposal will need to pass through the EU's legislative process and any adjustments could be made before formal adoption



2. New product categorisation model

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A new product categorisation regime has been proposed, replacing Articles 6, 8, and 9 with a clearer structure based on 'Transition', 'ESG Basics', and 'Sustainable' categories

Category	Description	Key criteria	Minimum exclusions
Article 7 – Transition	Covers products making investments in companies and/or projects that are not yet sustainable but that are on a credible transition path or contribute to such transition	≥70 % of assets linked to transition goals	Activities involved in: controversial weapons, tobacco, human rights violations. Companies with revenues of 1% or more from hard coal/lignite production/distribution. Companies developing new fossil fuel projects or not phasing out coal/lignite for power generation
Article 8 – ESG Basics	Covers products which claim to integrate sustainability factors in their investment strategy which do not meet the criteria of the Sustainable or Transition categories	≥70 % of assets linked to outperformers or performers with a proven sustainability track record	Activities involved in: controversial weapons, tobacco, human rights violations. Companies with revenues of 1% or more from hard coal/lignite production/distribution
Article 9 – Sustainable	Significant percentage of assets in sustainable economic activities (e.g., taxonomy-aligned)	≥70 % of assets in sustainable economic activities (e.g., taxonomy-aligned)	Activities involved in: controversial weapons, tobacco, human rights violations, and fossil fuels including new coal, oil, gas and lignite power generation
Article 9a – Mixed Category	Products contributing to sustainability goals such as investments in companies or projects that are already meeting high sustainability standards	Blend of the criteria above.	As applicable per category combination.

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Article 7 - Transition

Article 7 - Transition

Covers products making investments in companies and/or projects that are **not yet sustainable but that are on a credible transition path or contribute to such transition**

70% minimum investment in transition-related assets. These include:

- ✓ Investments in portfolios replicating/managed in reference to an EU Climate Transition Benchmark or EU Paris-aligned benchmarks
- ✓ EU Taxonomy-aligned investments
- ✓ Investments in undertakings/economic activities with a credible transition plan (as regards at least one sustainability factor)
- ✓ Investments in undertakings/economic activities with credible science-based targets
- ✓ Investments accompanied by a credible sustainability-related engagement strategy
- ✓ Investments eligible for investment by products classed as “sustainable” under the new framework
- ✓ Investments following a credible transition target set at the level of the portfolio (such as reduction of portfolio emissions over time)
- ✓ Other investments in undertakings/economic activities/other assets that credibly contribute to the transition to sustainability provided proper justification is provided in pre-contractual disclosures

Must exclude investment in companies involved in tobacco or controversial weapons, those found in violation of human rights, or those generating significant revenues from coal or expanding their fossil fuel activities. An exemption is provided for certain use-of-proceeds instruments of otherwise excluded issuers.

Must identify and disclose **principal adverse impacts** of their investments on sustainability factors and explain any action taken to address those impacts.

Can be availed of by funds implementing an **impact strategy**. Such funds will be subject to specific disclosure obligations.

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Article 8 – ESG Basics

Article 8 – ESG Basics

Covers products which claim to **integrate sustainability factors** in their investment strategy beyond sustainability risks but which **do not meet the criteria of the Sustainable or Transition categories**

70% minimum investment in assets that integrate sustainability factors including:

- ✓ Investments with an ESG rating that outperform their universe/reference benchmark
- ✓ Investments that outperform the average investment universe/reference benchmark with reference to a specific appropriate sustainability indicator
- ✓ Investments that favour companies or economic activities with a proven positive track record in terms of processes, performance or outcomes related to sustainability factors
- ✓ Investments that are eligible for investment by the Transition category and the Sustainable category
- ✓ Other investments that integrate sustainability factors (beyond risk management considerations)

Must exclude investment in companies involved in tobacco or controversial weapons, those found in violation of human rights, or those generating significant revenues from coal. An exemption is provided for certain use-of-proceeds instruments of otherwise excluded issuers.

Cannot be used by funds implementing an impact strategy. Such funds will be subject to additional disclosure requirements.

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Article 9 – Sustainable

Article 9 – Sustainable

Covers products **contributing to sustainability goals** (e.g. environmental or social goals) such as investments in companies or projects that are already meeting high sustainability standards

70% minimum investment in assets that have a clear and measurable sustainable objective. These include:

- ✓ Investments in portfolios replicating/managed in reference to an EU Paris-aligned benchmark
- ✓ EU Taxonomy-aligned investments
- ✓ EU green bonds
- ✓ Comparable assets to those listed above
- ✓ Investments and co-investments in EU budget-backed ESG instruments
- ✓ Investments in European social entrepreneurship funds
- ✓ Other investments in undertakings, economic activities, or assets that contribute to an environmental or social objective

Must exclude investment in companies involved in tobacco or controversial weapons or found in violation of human rights or active in fossil fuels or high-emitting energy activities or expanding their fossil fuel activities. No exemptions available for use-of-proceeds instruments issued by excluded issuers.

Must identify and disclose the **principal adverse impacts** of their investments on sustainability factors and actions taken to address those impacts.

Can be availed of by funds implementing an **impact strategy**.



3. Simplified PAI and disclosure obligations

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The revision proposes a simplification of PAI reporting

Former PAI Indicators

Category	Indicator
Environmental	1. GHG emissions (Scope 1, Scope 2, Scope 3, and Scope 1+2+3)
	2. Carbon footprint
	3. GHG intensity
	4. Exposure to companies active in fossil fuel sector
	5. Share of non-renewable energy consumption and production
	6. Energy consumption intensity
	7. Companies with sites/operations located in or near to biodiversity sensitive areas
	8. Emissions to water ratio
	9. Hazardous waste ratio
Social	10. Companies involved in violations of UN Global Compact Principles and OECD Guidelines
	11. Companies without policies to monitor compliance with UN GC Principles and OECD Guidelines
	12. Unadjusted gender pay gap
	13. Board gender diversity
Additional environmental	14. Companies involved in the manufacture or selling of controversial weapons
	Choose additional environmental indicator
Additional social	Choose additional social indicator



Proposed PAI scheme

- ✓ Entity-level disclosures to be removed (PAI statement and remuneration policies)
- ✓ For Transition and Sustainable categories, Financial Market Participants ("FMPs") must identify and report on PAI. The EU Commission can define sample indicators, but they are "voluntary" (build on the current PAIs)
- ✓ FMPs must explain any actions taken to address and mitigate impacts identified



4. Formal recognition of Impact Investing

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For the first time, the SFDR would formally acknowledge impact investing

Funds seeking measurable environmental or social outcomes could be added to either the Transition or Sustainable categories, provided that:

- ★ They define clear impact objectives and pathways with an upfront theory of change
- ★ They disclose impact KPIs for measurement
- ★ They implement Impact Measurement and Management ("IMM") frameworks
- ★ Report impact achieved at both investment and investor levels
- ★ Specific disclosures will apply

Only funds meeting these criteria would be permitted to include **"impact"** in their names



5. Additional considerations

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Some additional considerations have been included in this revision

- ▶ **Non-categorised products may add limited information in pre-contractual documents** on whether and how they consider sustainability factors, as long as this is not a “central element.” If included, a corresponding description must also appear in the periodic report.
- ▶ **Exemption for existing close-ended products** created and distributed before the application date.
- ▶ **Additional modifications include merging website and pre-contractual disclosures into a single, integrated format**, aiming to reduce duplication, improve consistency of information across documents, and make it easier for investors to locate and understand key sustainability-related details.
- ▶ **The EU Commission proposed to apply SFDR 2.0 18 months after entry into force.** Certain insurance and pension products have another 12 months to apply categories and disclosures.
- ▶ **Existing SFDR RTS will be repealed and replaced by new Level 2** – for which the EU Commission has no deadline.



6. Next steps

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What is next?

1

Final SFDR 2.0 proposal marks a decisive shift towards clearer categories, stricter exclusions, and aligned disclosure rules.

2

The proposal must now be considered by both the European Parliament and the Council of the EU, which will each publish their own position on the proposed revisions to the SFDR. Thereafter, triilogue negotiations between the three EU institutions will begin.

3

In light of this, it is expected that the revised **framework will apply from 2028 at the earliest.**

Thank You!



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