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EuropeanIssuers Position Paper on SFDR 2.0

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EuropeanIssuers welcomes the review of the Sustainable Finance Disclosure Regulation (SFDR). We believe the review of SFDR should aim at supporting and financing the climate transition. However, we believe that further simplification and clarification are necessary to fully explore the benefits of the revision and unlock the potential for sustainable investing

The Commission's proposal, in its current form, may risk undermining its own objectives at the moment of implementation: it appears overly complex and difficult to implement, and several of its provisions risk creating inconsistencies with the broader EU sustainable finance framework.

In light of this, our key priorities for the revision are the following:

- The European Commission should strive for maximum coherence across EU sustainable finance framework, in particular with the CSRD/ESRS, the Benchmark Regulation, the EU Taxonomy and the EU Green Bond Standard (EuGB). Without this coherence, the simplifications introduced by the Omnibus package risk being rendered ineffective. In this context, we recommend that the Commission fully aligns the sustainability-related indicators between SFDR-related datapoints and the corresponding datapoints under the revised ESRS, so that market participants can rely on a single, consistent set of metrics for product-level disclosures.
- The proposed exclusion criteria introduce a new and unjustified layer of regulation that is not aligned with well-established benchmark standards under the Benchmark Regulation.
- Sovereign bonds should be eligible for all product categories, provided that appropriate criteria are defined.
- The conditions of the Transition Category, as currently proposed, are too restrictive and risk failing the regulation's core objective of financing the transition of the EU economy.
- Immediate implementation relief should be granted for the removal of entity-level reporting, provided that list of key indicators defining the products will be decision-useful and clear.
- ESMA's guidelines on sustainability-related fund names should be repealed upon implementation of SFDR 2.0 to avoid confusion.
- Prohibition of gold plating to prevent divergent national interpretations and implementation practices, and foster an integrated ESG market in the EU, in line with the Draghi's report (Article 14b).

1. Coherence with the broader EU sustainable finance framework is essential

EuropeanIssuers believes that both the CSRD and the ESRS should be the cornerstone of corporate sustainability disclosures. All information that financial companies are obliged to report under SFDR, or the regulatory framework governing the banking sector, should match the requirements of the sustainability reports of corporates subject to CSRD/ESRS disclosures. We therefore advocate viewing all sustainability reporting in context and creating a unified data pool for all types of sustainability reporting.

Disclosures imposed on financial market participants **should not result in additional reporting burden for investee companies** and should be based on existing sustainability reporting requirements, i.e. the ESRS. We recommend that the Commission fully aligns the sustainability-related indicators between SFDR-related datapoints and corresponding datapoints under the revised ESRS. Therefore, the Co-legislator should not introduce new additional datapoints beyond ESRS/CSRD reporting through Level-2 at any circumstance.

We recommend adding the following recital to clearly state that SFDR 2.0 will not create additional burden and impose on investee companies' new indicators.

European Commission Proposal	*Amendment*
	(new) (14 a) In line with the Commission's commitment to reduce reporting burdens and enhance competitiveness and the objectives of Directive (EU) 2026/470 of 24 February 2026, disclosure requirements imposed under this regulation shall not result in additional burden for investee companies.

More broadly, the European Commission and Co-Legislators should strive for maximum coherence across EU sustainable finance frameworks such as the SFDR, the Benchmark Regulation, the EU Taxonomy and the EuGB. Various **proposed exclusions risk creating inconsistencies** with the well-established Paris-Aligned Benchmark (PAB) and Climate Transition Benchmark (CTB) exclusion criteria under the Benchmark Regulation (BMR). Aligning SFDR exclusions with the BMR framework, rather than introducing new exceptions, would improve coherence, enhance clarity and usability, and support the Commission's stated objective of simplification.

As for the interaction between SFDR and the EU Taxonomy, EuropeanIssuers still believes the EU Taxonomy should be made a voluntary instrument. However, as long as the EU Taxonomy remains mandatory, EI supports the 15% threshold which must not be increased. No financial product should be excluded from the scope of SFDR 2.0.

2. No financial product should be excluded from the scope of SFDR 2.0

EuropeanIssuers considers that **no asset class or type of financial product should be excluded from the scope of SFDR 2.0**. Structured products, derivatives, and insurance products each play a meaningful role in channelling capital toward sustainable investments, including for retail investors, and their exclusion or de facto marginalisation would reduce investor choice and undermine the reach of the sustainable finance framework.

The new product categories must therefore be designed to **reflect the specificities of all instrument types**, rather than defaulting to criteria calibrated exclusively for plain equity or bond funds. A scope that fails to accommodate the full diversity of financial products would create an uneven playing field among financial actors and risk limiting the overall effectiveness of the regulation.

3. Exclusion criteria must not impede transition finance

The revised proposal introduces mandatory exclusion criteria for each of the sustainability-related product categories. **Exclusions beyond the Climate Transition Benchmark (CTB) standards risk impeding investment in transitioning companies** and create no incentive, neither for the companies themselves nor for investors.

To drive meaningful GHG emission reductions and advance the goals of the Paris Agreement, transition financial products must remain able to integrate investments in the energy sector as a whole. The systematic exclusion of oil and gas companies, including biogas and biofuel producers or distributors, is overly restrictive and risks overlooking the diversity of credible transition strategies.

The Transition Category should instead be open to any issuer able to demonstrate genuine progress toward decarbonisation. Eligibility should be based on graduated, quantitative and verifiable criteria, such as CAPEX-based metrics and other measurable indicators, that allow investors to differentiate between companies and incentivise those with a credible decarbonisation path.

EuropeanIssuers recommends a progressive approach with increasingly more stringent exclusion criteria across the three product categories:

- **For the ESG Basics and Transition Categories:** applying the exclusions applicable to the Climate Transition Benchmark (CTB), as referenced in Article 12.1(a) to (c) of the BMR Delegated Act.
- **For the Sustainable Category:** applying the exclusions applicable to the Paris-Aligned Benchmark (PAB).

We would not support further tightening of the eligibility conditions or exclusions of the ESG Basics and Transition Categories that would risk undermining their objectives and usability.

Furthermore, we propose that exclusions under the transition and ESG basics categories should only apply to new equity and fixed income investments.

4. Sovereign bonds must be included in all product categories

EuropeanIssuers recommends that **sovereign bonds should be eligible for all categories** of the Commission's proposal, provided that appropriate criteria are defined.

Although the assessment of sovereign sustainability risks and the contribution of sovereigns to climate change mitigation and adaptation have evolved significantly in recent years, yielding robust and sophisticated methodologies, the suggested categorisation framework does not reflect this progress. The legislative proposal restricts general-purpose government bonds to the 'ESG basics' category, reserving the 'transition' and 'sustainable' categories exclusively for narrowly defined use-of-proceeds (UoP) instruments.

Considering the EU's strong climate commitments and regulatory framework, **EU sovereign debts are inherently linked to transition efforts** and should thus be *de facto* classified in the Transition Category. For non-EU sovereigns, a specific methodology could be developed based on actions and international commitments, with the possibility of reclassification in the event of a breach of principles.

Excluding sovereign bonds from the sustainable and transition categories would entail shifting the entire responsibility of driving the transition onto corporations, obscuring the crucial role and accountability of governments in the transition process to a sustainable future. Furthermore, if sovereign bonds are not included in the transition and sustainable product categories, this may also significantly reduce the options for diversification. Retail or institutional investors seeking products with a low risk profile and a focus on sustainability might find their range of available investment opportunities notably restricted.

5. The proposed product categories require revision

The Transition Category conditions are too restrictive

The conditions of the Transition Category appear too restrictive, potentially excluding entire economic sectors that are on a credible transition pathway and that are substantially investing in Europe's decarbonisation, such as in clean energy and carbon capture, utilisation and storage (CCUS). This may result in SFDR 2.0 not effectively supporting the transition of the EU economy. **The challenge is to drive investments towards activities and companies in transition, and not to finance 'green' activities only**.

In this regard, **the 70% threshold could be lowered to 50%**. While we support the ambition of the Commission, we caution against setting the bar too high. As illustrated by the implementation of the EU Taxonomy, overly ambitious thresholds result in limiting the investment universe for investors, which is precisely the opposite of the intended effect. Should the 70% threshold nonetheless be retained, a meaningful phase-in period must at minimum be granted to fund managers and investee companies to allow for orderly portfolio adjustment, as mentioned in the rollout section below.

Moreover, as outlined above, the 15% EU Taxonomy alignment threshold **must not be increased.** Raising the threshold would compound the existing burdens the EU Taxonomy already places on market participants, without any corresponding improvement in its practical coverage or usability, and would further undermine the coherence of the broader EU sustainable finance framework.

The eligibility test should rely either on transition plans or transition strategies, or on figure-based and verifiable metrics such as investments or other measurable KPIs.

Clarifications necessary for effective implementation

Generally speaking, the conditions for each category are very complex and mismatched with the market's reality. To ensure proper implementation, clarifications are necessary on the following points:

- **70% threshold:** The Commission would be empowered to define by way of a delegated act the methodology to apply this threshold. It also should be clarified that there is no requirement imposed on the remaining 30%.
- **Credible transition plan and science-based targets:** These notions should be clearly defined before they can serve as meaningful eligibility criteria. Transition plans should not be required to be aligned with the 1.5° trajectory: the Paris Agreement itself refers more broadly to holding warming well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C. The European Commission has also recognised that the notion of "compatibility" referenced in ESRS E1 remains undefined in EU law at the company level. EuropeanIssuers is equally cautious about the use of *science-based targets* as a reference, given that the underlying methodologies are contested and continue to evolve. The term "credible", as applied to transition plans, further lacks objectivity and a defined legal basis, and risks creating inconsistent assessments across the market.

  Finally, the verification of these criteria by specialised third-party providers is both time-consuming and costly, particularly given that compliance is framed as an obligation of means rather than of result.

6. Immediate implementation relief and careful rollout

Entity-level reporting: immediate relief

EuropeanIssuers supports the deletion of the PAI-regime at the management entity level, since these disclosures have limited value for retail and institutional investors. The criteria to be considered at the products level will need to be redefined to focus on a limited number of relevant indicators (vs the 14 existing indicators with a double materiality assessment). On the contrary, the ability of investors to request additional ESG information "on demand" could increase operational complexity for asset management firms.

Thus, we believe, the deleted requirement should take effect immediately after the entry into force of SFDR 2.0, regardless of the 18-month implementation period. Additionally, the Commission should deprioritise supervisory actions with regards to the discontinued entity-level disclosures in the interest of immediate burden reduction.

ESMA Guidelines on sustainability-related claims should be repealed

EuropeanIssuers argues that SFDR 2.0 should operate as the only comprehensive framework governing the naming and marketing of financial products in the context of sustainability claims. The coexistence of the ESMA Guidelines and a future SFDR 2.0 with different sustainability investment thresholds lacks coherence. We therefore recommend deleting the ESMA Guidelines regarding sustainability-related terminology in fund names no later than the date of application of the new SFDR regime.

Rollout must be carefully coordinated

The rollout of the revision should be carefully planned, allowing sufficient time for practical adaptations while ensuring flawless implementation. SFDR 2.0 should apply only after the current changes in the EU Sustainable Finance regulatory framework are finalised, including the adoption of Level-2 requirements, sustainability preferences rules under MiFID/IDD, and the revised ESRS.

In the meantime, **a clearer and more detailed approach for the transition between SFDR 1.0 and SFDR 2.0 is needed.** Continuing to operationalise obsolete provisions risks creating inefficiencies through a two-track approach and communication challenges for investors. A period of tolerance, starting when the final text is voted, should be considered to enable immediate application of chosen amendments.

In this regard, we suggest that the European Commission:

- Should start work on Level-2 delegated acts as soon as possible, considerably ahead of the trilogue agreement being finalised.
- Starts the modification of the criteria for sustainability preferences under MiFID and IDD in parallel, taking into account that this work is fully intertwined with Level-2 measures under SFDR. If timelines for amending SFDR, MiFID II, IDD and PRIIPs cannot be aligned, there should be transitional periods until all regulations are updated.
- Ensures that PRIIPs KID amendments reflect the full sustainable product universe. Mutual funds should not be the only product category permitted to display information on sustainability elements in a KID.
- Sets up a fast-track for mutual funds under ESMA Guidelines with a 12-month grace period to foster market adoption for the newly introduced product categories and ensure a smooth transition to the new SFDR regime.
- Provides sufficient flexibility on the timing for reaching the 70% threshold across the new product categories**.** Management entities should be granted a reasonable phase-in period upon entry into force of SFDR 2.0 to adjust their portfolios accordingly. This would reduce the implementation burden on both fund managers and investee companies, and support orderly market adoption of the new categorisation framework without triggering disruptive asset reallocations.
- Recommends a common approach for the NCAs to assess the relevance of the analysis performed by the fund managers.