

THE EU SUSTAINABLE FINANCE DISCLOSURE REGULATION 2.0 — 10 QUESTIONS

1. What is the background to proposed changes to the EU Sustainable Finance Disclosure Regulation (“SFDR”) and what is the current status?

The SFDR came into force on 10 March 2021 as a key component of the European Green Deal, which aimed to ensure the EU is carbon neutral by 2050. It was introduced as a disclosure regime with a fundamental aim to increase transparency by helping investors assess how sustainability risks are integrated into managers' investment decision-making processes and thereby guard against greenwashing. In order to meet this objective, among other obligations, the SFDR introduced product designation based on specific disclosure obligations, as follows:

- **Article 6:** A general product category for funds without a sustainability scope. Funds must disclose how sustainability risks are integrated into investment decision-making processes.
- **Article 8:** Funds that promote selected environmental, social and/or governance characteristics and which may commit to making some 'sustainable investments' (as defined by the SFDR), but are not required to make 'sustainable investments'. In practice, Article 8 funds committing to approximately 50%+ 'sustainable investments' are considered 'dark green' Article 8 funds and those committing to a smaller percentage or no 'sustainable investments' are considered 'light green' Article 8 funds. All investee companies must follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.
- **Article 9:** Funds that have as their objective a positive impact on the environment and society and invest exclusively in 'sustainable investments'. All investee companies must follow good governance practices, in particular with respect to sound management

structures, employee relations, remuneration of staff and tax compliance.

These fund classifications are subject to incremental disclosure requirements, with Article 6 funds having the lowest disclosure requirements (and no associated annual reporting) and Article 9 funds having the most extensive disclosure requirements.

In practice, the SFDR has been criticised for being frequently applied by market participants as a de facto labelling regime, rather than a disclosure regime, creating confusion among managers and investors; and posing greenwashing risks. Market participants have also raised concerns that the SFDR regime is fragmented, confusing and difficult to operate in practice.

The following consultations and reports, all published within the last 18 months, elaborate further on the perceived problems with the existing regime and explore options for future reform:

- *EC Public Consultation and Targeted Consultation (at stakeholders including: financial practitioners, non-governmental organisations, national competent authorities, professional and retail investors) on the Implementation of the SFDR* (September 2023) (together, the “**Consultations**”), followed by a summary report of findings *EC Summary Report of the Open and Targeted Consultations on the SFDR Assessment* (the “**Summary Report**”) (May 2024).
- The European Supervisory Authorities (“**ESAs**”) published a *Joint ESAs Opinion on the Summary Report (“**Joint Opinion**”)* (June 2024).
- The European Securities and Markets Authority

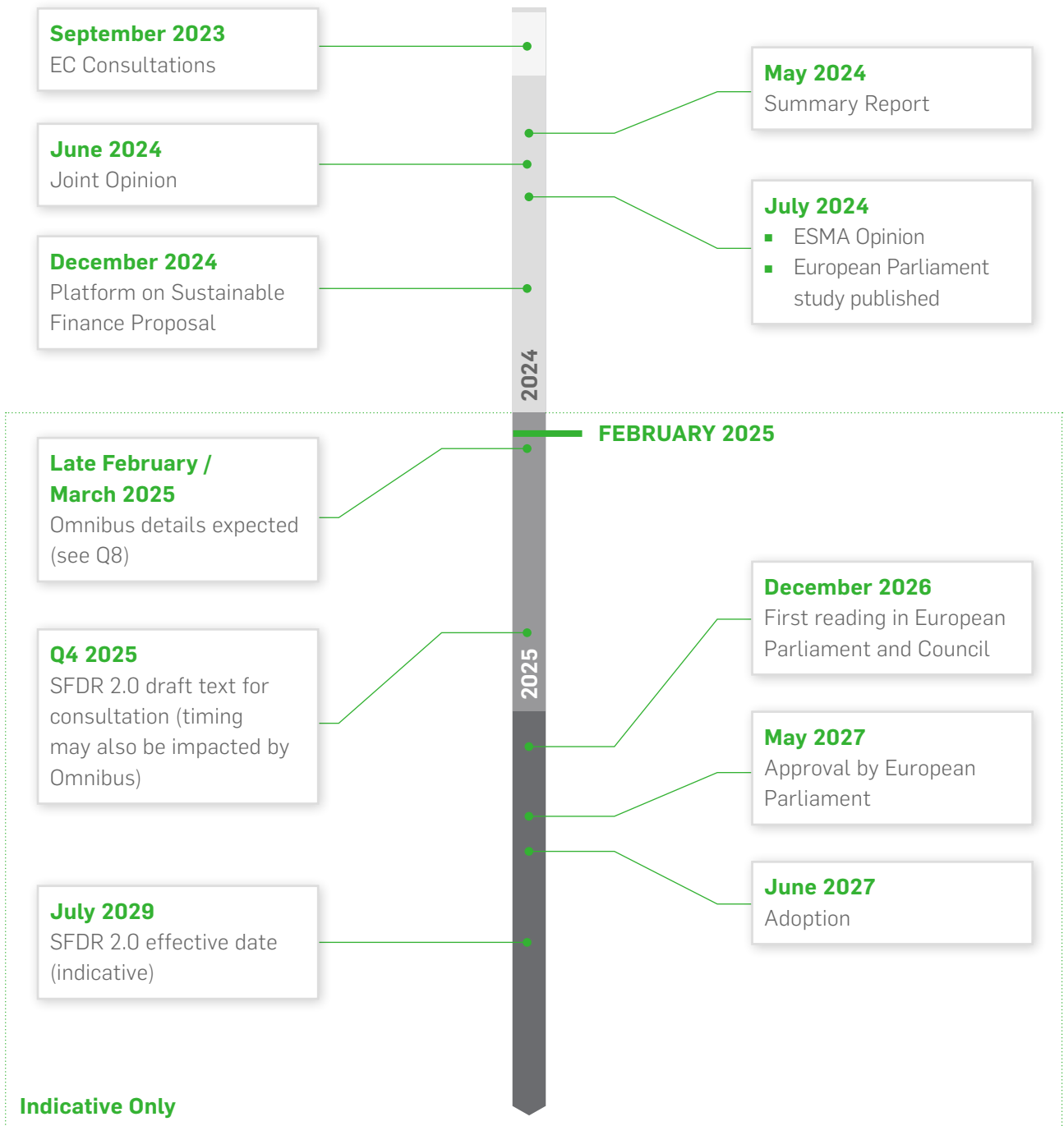
("ESMA") published an *Opinion on the Functioning of the Sustainable Finance Frameworks* ("ESMA Opinion") (July 2024).

- The European Parliament published a *Study on the Current Implementation of the SFDR - With an Assessment on how the Legislative Framework is Working for Retail Investors* (July 2024).
- The EU Platform on Sustainable Finance ("Platform"), an advisory body to the EC, published a *Platform Briefing on the Categorisation of Products under the*

SFDR (the "Platform's Proposal") (December 2024).

The most significant in terms of the direction of reform and detail is the Platform's Proposal, which builds on the conclusions of the Summary Report, the Joint Opinion and the ESMA Opinion. Whilst the Proposal is non-binding on the EC, it is significant as an indicative direction of travel that the EC may pursue.

A broad, indicative timeline of the SFDR review is set out below, also reflecting the EC's latest **2025 Work Programme and Annexes**, published in February 2025:



2. What are the key proposed changes to the SFDR?

In response to the criticism that the SFDR has been used as a labelling, rather than a disclosure regime, the Platform recommends replacing Article 6, 8 and 9 with three new product categories. The Platform has proposed mandatory minimum exclusion criteria and investment levels (specific percentage thresholds and criteria to be confirmed following further analysis,

including whether different thresholds will apply to different products / firms depending on their size) for each new category. Managers will be required to identify binding elements of their fund strategies to determine whether they meet the minimum criteria and select the indicators they will use for measurement.

	Summary of the category	Criteria	Disclosure
Sustainable	Investments that are already sustainable or otherwise pass the 'do no significant harm' (" DNSH ") test. Platform suggests a new definition of 'sustainable investment' consistent with the EU Taxonomy Regulation (" EU Taxonomy ") (see Q5 for more detail).	<ul style="list-style-type: none"> Minimum of its investments in 'sustainable investments' as defined under SFDR and investments aligned with the EU Taxonomy. Mandatory exclusion list, derived from the exclusion list under the EU Paris-Aligned Benchmarks (the "EU PABs"), with some adjustments. 	Pre-contractual disclosures and periodic reporting based on indicators.
Transition	Investments that primarily or exclusively support the transition to net zero and a sustainable economy.	<ul style="list-style-type: none"> Minimum of its investments in assets transitioning in line with a credible transition plan(s) at the portfolio or investment level. Mandatory exclusion list building on EU Climate Transition Benchmarks ("EU CTBs") with some adjustments. 	Pre-contractual disclosures and periodic reporting based on indicators.
ESG Collection	Investments that follow one or a combination of one or more material sustainability feature.	<ul style="list-style-type: none"> Minimum of its investments aligned with a material sustainability feature. Mandatory exclusion list building on EU CTBs with some adjustments. 	Pre-contractual disclosures and periodic reporting based on indicators.
Unclassified products	All other products	N/A – no minimum criteria.	Periodic reporting based on limited indicators.

Whilst there is no proposed category covering 'impact' investing, the Platform recommends that the EC develop a common understanding on impact investing, how it relates to the EU Taxonomy and subsequently determine how to integrate it into the categorisation system.

It is worth noting that the Sustainable category's exclusion list is based on EU PABs, whereas the exclusion list for Transition and ESG Collection is built on EU CTBs. Whilst there is overlap between these benchmarks (for example, both exclude companies involved in controversial weapons and tobacco production), the EU PABs have stricter exclusion criteria, meaning they remove more companies from the investment universe, particularly those heavily involved in fossil fuels, to achieve a greater level of decarbonization aligned with the Paris Agreement's 1.5°C target. In contrast, EU CTBs allow for a more gradual transition with less stringent exclusions. This accounts for why ESG Collection utilizes EU CTBs only: this category can cover both Sustainable and Transition-eligible investments, so therefore is required to adopt the less strict mandatory exclusion list to be able to cover Transition-eligible investments.

3. How do the proposed new fund classification categories compare to the existing categories?

The Platform's Proposal suggests that existing funds could be allocated to the new proposed categories as follows:

		SFDR 2.0			
	Fund classification	Sustainable	Transition	ESG Collection	Unclassified
SFDR	Article 6	✗	✗	✗	✓
	Article 8	✓	✓	✓	✓
	Article 9	✓	(✓)	✗	✗

The Platform's Proposal did not set out how the changes will apply to existing Article 6, 8 and 9 funds but did recognise that some funds currently disclosing under Article 8 or Article 9 would not automatically fall within one of the three new categories and may therefore be unclassified. It remains unclear whether funds which are currently designated as Article 8 "light green" would be eligible for the ESG Collection category, given the more stringent minimum criteria.

It also remains to be seen how the EC will address funds which promote social and/or governance characteristics, as opposed to being focused on environmental and climate-related features, given that socially sustainable activities are not yet classified under the EU Taxonomy. Nevertheless, the Platform suggests that products with social objectives could qualify under all three categories, with managers defining 'socially sustainable activities' themselves until a 'Social Taxonomy' is developed. The Platform recommends using its previous *Report on a Social Taxonomy* (February 2022), the social Principal Adverse Impacts ("PAIs"), the EU Corporate Sustainability Due Diligence Directive ("CSDDD") and

the social indicators embedded in the relevant standards of the EU Corporate Sustainability Reporting Directive ("CSRD") as a foundation for the development of a 'Social Taxonomy'.

The Platform's Proposal highlights that the EC needs to introduce clear transitional provisions to allow newly unclassified funds time to change their sustainability strategy or amend their documentation to fall within one of the three core categories. It is likely that:

- a proportion of existing Article 8 funds would be "ESG Collection" funds (subject to the above point in relation to 'light green' Article 8 funds);
- Article 9 funds tracking the EU CTBs could be "Transition" funds; and
- Article 9 funds tracking the EU PABs could be "Sustainable funds".

The Platform also indicates that funds of funds could be eligible for any of the categories, but would most likely fall within the ESG Collection category.

4. What are the proposed disclosures and reporting requirements and how does this compare to the current regime?

Products falling within one of the three new categories proposed by the Platform would continue to be subject to mandatory pre-contractual disclosures and periodic reporting. However, the pre-contractual disclosures would be limited to details on the minimum criteria for each category (outlined in Q2 above), the binding elements of the investment strategy that underpin these criteria and indicators to measure that these criteria have been met. This should simplify the pre-

contractual disclosure requirements compared to the lengthy and detailed templates that currently need to be completed for Article 8 and Article 9 funds.

Ongoing reporting requirements would vary depending on the categorisation but are expected to cover reporting on specified metrics to measure satisfaction of the fund's minimum criteria. This contrasts with the existing periodic reports which are more qualitative in nature.

The Platform recommends that 'unclassified products' should still be required to report on alignment with the EU Taxonomy and certain PAIs (such as greenhouse gas emissions and human rights due diligence). This would be a considerable uplift for current Article 6 funds which, at present, are not subject to any periodic reporting

requirements. In addition, unclassified products would not be allowed to refer to ESG characteristics in their marketing materials (but references to ESG would be permitted in legal documents) or use sustainability-related terms in their name.

5. Do the proposed SFDR changes affect the EU Taxonomy?

The EU Taxonomy and the SFDR frameworks each aim to improve transparency, combat greenwashing, and help determine which investments are 'sustainable'. The EU Taxonomy is a novel, yet complex, framework for measuring the sustainability of activities, translating environmental performance into financial metrics.

A key issue identified by financial market participants with the existing SFDR regime and the EU Taxonomy is that each includes its own approach to defining what a 'sustainable investment' is. Whilst the EU Taxonomy provides a metrics-based approach to the classification of relevant environmental activities, the current SFDR regime is more principle-based and less prescriptive, i.e. it defines 'sustainable investment' as an investment that contributes to an environmental or social objective provided the activities do not significantly harm any environmental or social objective. Comparatively, to be classified as a 'sustainable investment' under the EU Taxonomy, specified performance thresholds known as 'technical screening criteria' must be complied with.

The Platform's Proposal involves greater alignment between the two regimes including by incorporating the EU Taxonomy definition of 'sustainable investment' into the minimum criteria of the 'Sustainable' product category under SFDR 2.0.

Against this background, earlier in February 2025, the Platform published a *further report with evidence-based recommendations to simplify the EU Taxonomy* to simplify the EU Taxonomy, reducing the reporting burden on companies whilst enhancing its operability and effectiveness, including a suggestion to refine the DNSH assessment. In January 2025, it also published a *draft report with preliminary recommendations* on additional new activities to the EU Taxonomy. Factoring in the Omnibus proposals (see Q8) too, the overarching view put forward by the Platform is that the review and further development of the EU Taxonomy should be prioritised, with compatible SFDR 2.0 changes to follow.

6. What is the future of the SFDR if the proposals are dropped?

Regardless of whether the full SFDR 2.0 reforms are implemented, smaller changes to the existing SFDR regime are (or were, until recently), expected in 2025. The ESAs published their *Final Report on the draft Regulatory Technical Standards ("RTS")*, often referred to as "**SFDR 1.5**", in December 2023 setting out proposed changes to reporting on PAIs, certain new, prescriptive disclosures for financial products that have greenhouse gas emission reduction targets, as well as new disclosure requirements for the DNSH thresholds and criteria. Until recently, these changes were expected to be implemented in early 2025, but given the various anticipated amendments to existing, and introduction of new, key pieces of sustainable finance legislation, it seems likely that implementation of these changes will be delayed to later this year, if the EC proceeds with them.

existing SFDR regime. They suggest building on the current distinction between the Article 8 and Article 9 products by converting them into formal product labelling categories, along with clarifying and adding criteria to underpin the existing concepts of the SFDR.

Additionally, *ESMA Guidelines on Funds' Names using ESG or Sustainability-related Terms* entered into force on 21 November 2024. Although the Guidelines sit outside of the SFDR regime, in practice they require funds marketed into the EU to comply with minimum sustainability requirements when using certain ESG or sustainability-related terms in their names. It is currently unclear how exactly existing funds with ESG or sustainability-related terms in their names will fit into the new proposed product categories, particularly given that the minimum percentage investment thresholds for each category are not yet determined.

To the extent the SFDR 2.0 is not pursued, the EC Consultations set out proposed modifications to the

7. What about the UK Sustainable Disclosure Regime (“SDR”)?

In July 2024, the UK implemented the SDR, which contained its own fund-labelling regime, including four new and voluntary sustainability labels for product-level disclosure. At present, the labels are only available to UK asset managers and distributors of UK-domiciled products marketed to UK investors and consumers. The labels have been designed to help consumers navigate the market and understand sustainable investment products.

SDR label	Specific criteria
Sustainability Focus	Products that invest at least 70% in assets that are environmentally and / or socially sustainable by reference to an 'evidence-based and robust standard of sustainability' (an absolute measure).
Sustainability Impact	Products that invest at least 70% in assets that aim to become environmentally and / or socially sustainability over time by reference to a 'predefined, positive, measurable outcome'. Managers must specify a robust method to measure and demonstrate that the fund is achieving this.
Sustainability Improvers	Products that invest at least 70% in assets with the potential to become more environmentally and / or socially sustainable over time by reference to an evidence-based and robust standard of sustainability.
Sustainability Mixed Goals	Products that invest at least 70% in accordance with a combination of the sustainability objectives for other labels.

The SDR was heavily influenced by the SFDR framework. The FCA has commented on the compatibility of the regimes and pointed out that much of the information used for product categorisation and disclosures under SFDR may be used to meet the qualifying criteria and disclosure requirements under the SDR. Equally, it is thought that the EC Consultations on the workability of the current SFDR regime have been partly inspired by the FCA's SDR.

Despite general market positivity about the UK labels' clarity and strategic focus compared to the EU equivalents, adoption of the SDR labels was low during the second half of 2024, with commentators expressing some frustration over the challenges involved in the filing process. However, this position may be evolving somewhat. For example, in late January 2025, [Schroders announced](#) it is set to adopt all four of the SDR labels for 16 of its funds. The adoption of the SDR labels may further progress in the event that the FCA extends its applicability to funds managed by managers based outside the UK and non-UK products.

Whilst there was limited reference to the SDR in the Platform's Proposal, the introduction of the three new fund classifications would mean a closer alignment between the SDR and SFDR. The Platform distinguished the use of the new 'categorisations' in its Proposal, which would have minimum criteria for the purposes of qualifying for a specific 'category', from the SDR's sustainable 'labels', which have stricter applicability criteria. In spite of this, the Platform's Proposals bring the SFDR more in line with the SDR. For more information, please refer to our [Weil Briefing](#), which summarises and compares SFDR and the SDR (September 2024).

From December 2024, the FCA also introduced new [Naming and Marketing Rules](#) (into its ESG Sourcebook) which impose certain restrictions around the naming and marketing of unlabelled UK products which are promoted to retail investors by UK managers and which use sustainability-related terms.

8. Are any aspects of the SFDR 2.0 Proposals likely to be impacted by the Omnibus simplification package?

The SFDR regime is not expected to be directly impacted by the Omnibus simplification package.

The Omnibus simplification package was first mentioned by the EC's president Ursula von der Leyen in November 2024 and since then has been referred to in various EU publications, including the roadmap "[A Competitiveness Compass for the EU](#)" (the "**Roadmap**"),

which was announced in January 2025. The Roadmap indicates that the first Omnibus package will cover 'a far-reaching simplification in the fields of sustainable finance reporting, sustainability due diligence and taxonomy', including reforms to the EU Taxonomy, as well as the CSRD and CSDDD. Given the EU Taxonomy is part of the 'triangle of legislation' under review as

part of the Omnibus package, a future SFDR 2.0 may be indirectly impacted by the EC's decision on how and to what extent to amend or expand the EU Taxonomy. It is unlikely that the EC will publish any legislative proposals on SFDR 2.0 until there is further clarity on the reforms foreseen as part of the Omnibus package.

At the start of February 2025, various institutional bodies including the Institutional Investors Group on Climate Change ("IIGCC"), the Principles for

Responsible Investment ("PRI"), as well as 162 undersigned investors and other stakeholders said to represent €6.6 trillion assets under management issued a *joint statement* calling on the EC to limit its Omnibus reforms to streamlining and simplifying the existing legislation, rather than opting for a fundamental regulatory reform, with the view to preserving the integrity and ambition of the EU's sustainable finance framework.

9. What about the widening regulatory gap with the US? Will that impact the EU's sustainability policy?

Since January 2025 and the start of Donald Trump's second presidential term, the growing anti-ESG sentiment in the US has given rise to specific questions concerning possible impact on the EU's approach to ESG policy and regulation.

However, in part because of the result of the European Parliament elections in 2024, directionally the EU's regulatory policy seems to have already been heading towards simplification and streamlining of sustainability standards. The EU's policy is currently focused on enhancing the EU's competitiveness and ensuring that regulation does not stifle innovation.

A key area to monitor will be the reaction of US companies to the existing and anticipated EU ESG regulatory requirements. It is important to note that whilst there have been reports of a rise in anti-ESG trends in the US, they are concentrated at a federal level and in the Republican states. Democratic states are continuing to introduce ESG regulations, for example, in January 2025, a bill supporting a new Climate Corporate Data Accountability Act was introduced in the New York Senate. The California's Climate Accountability Package (the Climate Corporate Accountability Act (SB 253) and the Climate-Related Financial Risk Act (SB 261) continue to progress towards implementation and hold up against legal challenges.

10. What steps should a proactive funds manager take to prepare for the SFDR changes?

Whilst the timeline and specifics of the SFDR 2.0 are uncertain, recommended steps for fund managers are to:

- ensure deal teams understand existing commitments under the SFDR and what they mean in practice when diligencing and assessing potential investments;
- monitor the SFDR 2.0 legal developments and market commentary closely and keep key stakeholders informed to manage expectations and better anticipate implementation challenges;
- ensure understanding of the application and scope of the new ESMA Guidelines for ESG or sustainability-related fund names;
- if relevant, ensure appropriate teams understand the UK equivalent framework and associated guidance;

- monitor timing of possible changes to the SFDR RTS and the impact this will have on existing funds, particularly in terms of the PAIs and the DNSH criteria and disclosures; and
- whilst the Omnibus has brought increased uncertainty for businesses, it is advisable to continue preparations for the CSRD reporting and compliance with the CSDDD (where required) until there is more certainty about scope and timing.

Please continue to speak to your usual Weil contact for regular updates on the Omnibus proposals.

For More Information

For more information about the topics raised or referred to in this briefing, please speak to your regular contact at Weil or to any of the authors listed below:



MARC SCHUBERT

+44 20 7903 1128
marc.schubert@weil.com



AMY WADDINGTON

+44 20 7903 1469
amy.waddington@weil.com



BRYONY PEARSON

+44 20 7903 1683
bryony.pearson@weil.com



JORDAN MCCOY

+44 20 7903 1173
jordan.mccoy@weil.com



KATE BYSTRYK

+44 20 7903 1171
katarzyna.bystryk@weil.com

Sustainability & ESG Contacts

M&A, PE AND CORPORATE:

MURRAY COX

murray.cox@weil.com

SIMON LYELL

simon.lyell@weil.com

BRENDAN MOYLAN

brendan.moylan@weil.com

AMY WADDINGTON

amy.waddington@weil.com

SUSTAINABILITY AND IMPACT FUNDRAISINGS (INCL. ENERGY TRANSITION):

ED GANDER

ed.gander@weil.com

JAMES BROMLEY

james.bromley@weil.com

JAMES SARGENT

james.sargent@weil.com

PETER BOULLE

peter.boulle@weil.com

JACQUELYN VOLPE

jacquelyn.volpe@weil.com

SOPHIE SMITH

sophie.smith@weil.com

MARC SCHUBERT

marc.schubert@weil.com

HANNAH LAURIE

hannah.laurie@weil.com

SUSTAINABILITY LINKED / GREEN FINANCE:

ALEX EAGLE

alex.eagle@weil.com

ANDREW HAGAN

andrew.hagan@weil.com

ALASTAIR MCVEIGH

alastair.mcveigh@weil.com

SIMON CARIDIA

simon.caridia@weil.com

JACKY KELLY

jacky.kelly@weil.com

STEVEN ONG

steven.ong@weil.com

MICHAEL MCDONALD

michael.mcdonald@weil.com

DISPUTES AND ANTITRUST:

JENINE HULSMANN

jenine.hulsmann@weil.com

CHRIS MARKS

christopher.marks@weil.com

HAYLEY LUND

hayley.lund@weil.com

NAFEES SAEED

nafees.saeed@weil.com

CHRIS CHAPMAN

chris.chapman@weil.com

SARAH CHAPLIN

sarah.chaplin@weil.com

OTHER SUBJECT MATTER EXPERTISE:

BARRY FISHLEY

Intellectual Property

barry.fishley@weil.com

JENNY DOAK

Tax

jenny.doak@weil.com

KEVIN DONEGAN

Tax

kevin.donegan@weil.com

LAURA MURRAY

Real estate & Environmental

laura.murray@weil.com

THOMAS WEATHERHILL

Employment

thomas.weatherhill@weil.com

GLOBAL KEY CONTACTS:

ANNEMARGARET CONNOLLY

annemargaret.connolly@weil.com

LYUBA GOLTSER

lyuba.goltser@weil.com

REBECCA GRAPSAS

rebecca.grapsas@weil.com

ROBERT STERN

robert.stern@weil.com

ADÉ HEYLIGER

ade.heylinger@weil.com

MATTHEW MORTON

matthew.morton@weil.com

WEIL.COM

©2025 WEIL, GOTSHAL & MANGES (LONDON) LLP ("WEIL LONDON"), 110 FETTER LANE, LONDON, EC4A 1AY, +44 20 7903 1000, WWW.WEIL.COM.
ALL RIGHTS RESERVED.

WEIL LONDON IS A LIMITED LIABILITY PARTNERSHIP OF SOLICITORS, REGISTERED FOREIGN LAWYERS AND EXEMPT EUROPEAN LAWYERS
AUTHORISED AND REGULATED BY THE SOLICITORS REGULATION AUTHORITY ("SRA") WITH REGISTRATION NUMBER 623206. A LIST OF THE NAMES
AND PROFESSIONAL QUALIFICATIONS OF THE PARTNERS IS AVAILABLE FOR INSPECTION AT THE ABOVE ADDRESS. WE USE THE WORD 'PARTNER'
TO REFER TO A MEMBER OF WEIL LONDON OR AN EMPLOYEE OR CONSULTANT WITH EQUIVALENT STANDING AND QUALIFICATION.

THE INFORMATION IN THIS PUBLICATION DOES NOT CONSTITUTE THE LEGAL OR OTHER PROFESSIONAL ADVICE OF WEIL LONDON. THE VIEWS
EXPRESSED IN THIS PUBLICATION REFLECT THOSE OF THE AUTHORS AND ARE NOT NECESSARILY THE VIEWS OF WEIL LONDON OR OF ITS CLIENTS.

Weil