

## SFDR 2.0 – WHAT YOU NEED TO KNOW

Since it entered into force in 2021, the EU Sustainable Finance Disclosure Regulation (“**SFDR 1.0**”) has been criticised for its shortcomings, in particular for operating as a de-facto labelling regime - rather than a disclosure regime as intended - and for requiring disclosures that are overly lengthy and complex, making it difficult for investors to understand and compare the environmental or social characteristics of financial products. On 20 November 2025, the European Commission (the “**Commission**”) published its long-awaited official proposal for reform: **SFDR 2.0**, together with a **press release** and **Q&A**. The proposed amendments revise the disclosure framework and define the essential features of the new proposed sustainability-related financial product categories and supervisory framework. The proposals also empower the Commission to develop a limited set of technical implementing rules to supplement these key elements. There is a long way to go in terms of detail, legislative process and timing but this Briefing summarises the key points to be aware of.

### HEADLINES

- **The Commission has proposed a new product categorisation system**, to replace the existing Article 6, 8 and 9 SFDR 1.0 products. The three primary categories are “Transition”, “ESG Basics” and “Sustainable”, as set out in the table below. The specific requirements will be included in SFDR 2.0 regulatory technical standards (“**RTS**”), which are awaited.
- **The Commission proposes to delete entity-level disclosure requirements for financial market participants (“FMPs”)** regarding principal adverse impact (“**PAI**”) indicators. The aim of this change is to streamline corporate disclosures within the sustainable finance framework, addressing current overlaps between the Corporate Sustainability Reporting Directive (“**CSRD**”) and the SFDR. This aligns with the Commission’s **Omnibus I Simplification Package**, published in February 2025 and currently being negotiated. At product-level, it is a condition of the Transition and Sustainable categories to identify and disclose PAIs, and explain remedial actions taken to address them. The Commission has stated that indicators should be developed that build on the current PAI indicators (set out in RTS supplementing SFDR 1.0) for voluntary use by FMPs, however, FMPs should have the flexibility to disclose PAIs using different indicators or qualitative explanations if more appropriate to the impacts they are addressing. This flexibility would allow FMPs to focus on the impacts that are actually relevant to their products.
- **The requirement to provide product-level pre-contractual, periodic and website disclosures remains**, however, the Commission is proposing a significant reduction in volume, with the intention of making disclosures more succinct. In addition, the product-level website disclosure obligation would be considered satisfied by linking directly to the pre-contractual disclosures or periodic reports.
- **The proposal scraps the SFDR “sustainable investment” definition**, which currently relates to the requirement that an investment contributes to an environmental and social objective, “does no significant harm” and operates with “good governance”. These concepts will be embedded indirectly in the criteria of the relevant product categories, for example by way of the excluded investments. In addition, the proposal now defines “environmental objectives” to align with the **EU Taxonomy Regulation** and states in the recitals that social objectives should be understood as including

the principles of the **European Pillar of Social Rights** and the **UN Sustainable Development Goals**.

- **There is no opt-out option for managers of alternative investment funds marketed exclusively to professional investors.** This had been included in a leaked proposal published on 6 November 2025.
- **Other proposed changes include** removing the requirement to integrate sustainability-related risks into remuneration policies (and the disclosure of such on websites); excluding portfolio managers and financial advisers from scope; requiring FMPs to make certain disclosures on their websites regarding ESG ratings, to the extent they disclose ESG ratings in marketing communications (and such communications should provide links to those website disclosures); and tightening the rules regarding the use of data provided by external data providers and data estimates (other

than those based on data provided by external data providers), requiring that their use ought to be based on formalised and documented arrangements and methodologies, respectively.

- **Timing is uncertain and subject to the EU's multi-step legislative process**, which will include the preparation of separate proposals from the EU Council and European Parliament and the trilogues between the three institutions. The final changes are therefore not expected to become law until late 2027 or early 2028. The SFDR 2.0 recitals suggest that for pension products, it will only become applicable 12 months after the SFDR 2.0 commencement date. There is no similar guidance for fund managers.
- **As noted above, updated RTS are awaited.** These detailed compliance criteria are needed to allow FMPs to meaningfully prepare for implementation.

CATEGORISATION

SFDR 2.0 proposes **three new primary product categories**, together with minimum investment thresholds, examples of investments that would meet these thresholds, and excluded investments, as detailed in the table below.

|                              | Transition<br>(Article 7)  | ESG Basics<br>(Article 8)   | Sustainable<br>(Article 9)  |
|------------------------------|--|---|---|
| Description of category      | Invests in the transition of undertakings, economic activities or other assets towards sustainability, or contributes to such transition.  | Integrates sustainability factors into the investment strategy beyond the consideration of sustainability risks.  | Invests in sustainable undertakings, sustainable economic activities, or other sustainable assets or contributes to sustainability.   |
| Minimum investment threshold | <ul style="list-style-type: none"><li>■ 70% of assets in investments meeting a clear and measurable transition objective related to sustainability factors, including environmental or social transition objectives; and</li><li>■ Identifies and discloses the principal adverse impacts of investments on sustainability factors, and explains any actions taken to address those impacts.</li></ul> <p>The 70% threshold requirement will be considered met where financial products:</p> <ul style="list-style-type: none"><li>■ Align with an EU climate transition or an EU Paris-aligned benchmark; or</li><li>■ At least 15% of investments are in Taxonomy-aligned economic activities.</li></ul> | <ul style="list-style-type: none"><li>■ 70% of assets in investments integrating sustainability factors, which are broadly defined in SFDR 1.0 as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.</li></ul> | <ul style="list-style-type: none"><li>■ 70% of assets in investments with clear and measurable objective related to sustainability factors, including environmental and social objectives; and</li><li>■ Identifies and discloses the principal adverse impacts of investments on sustainability factors, and explains any actions taken to address those impacts</li></ul> <p>The 70% threshold requirement will be considered met where financial products:</p> <ul style="list-style-type: none"><li>■ Align with an EU Paris-aligned benchmark; or</li><li>■ At least 15% of investments are in Taxonomy-aligned economic activities.</li></ul> |

|  | Transition<br>(Article 7)   | ESG Basics<br>(Article 8)   | Sustainable<br>(Article 9)  |
|--|---|---|---|
| <b>Examples of specified investments</b> | <p>Investments accompanied with a credible sustainability related engagement strategy, targeting specific changes with defined milestones and integrating escalation actions in case the expected changes do not happen.</p> <p>Investments with a credible transition target set at the level of the portfolio, such as reduction of portfolio emissions over time.</p>  | <p>Investments with an ESG rating that outperforms the average rating of the investment universe or reference benchmark.</p> <p>Investments that outperform the average investment universe or reference benchmark on a specific appropriate sustainability indicator.</p> <p>Investments that favour undertakings or economic activities with a proven positive track record of processes, performance or outcomes related to sustainability factors.</p>  | <p>Portfolios replicating or managed according to EU Paris-aligned benchmarks.</p> <p>Taxonomy-aligned economic activities.</p> <p>Investments in European social entrepreneurship funds, as referred to under the EU Social Entrepreneurship Funds Regulation.</p> <p>Other investments in undertakings, economic activities or assets that contribute to an environmental objective or a social objective provided that a proper justification is included in investor disclosures.</p> |
| <b>Excluded investments</b>              | <p>Certain companies excluded from EU Paris-aligned benchmarks, such as those:</p> <ul style="list-style-type: none"> <li>Involved in any activities related to controversial weapons.</li> <li>Involved in cultivation and production of tobacco.</li> <li>Companies where a benchmark administrator has found a violation of UNGC Principles or OECD Guidelines on Multinational Enterprises.</li> <li>Companies that derive 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite.</li> </ul> <p>New projects to explore, extract, distribute or refine hard coal, lignite, oil fuels or gaseous fuels or new projects that do not have a plan to phase out from, exploration, mining, extraction, distribution, refining or exploitation of hard coal or lignite for power generation.</p> | <p>Certain companies excluded from EU Paris-aligned benchmarks, such as those:</p> <ul style="list-style-type: none"> <li>Involved in any activities related to controversial weapons.</li> <li>Involved in cultivation and production of tobacco.</li> <li>Companies where a benchmark administrator has found a violation of UNGC Principles or OECD Guidelines on Multinational Enterprises.</li> <li>Companies that derive 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite.</li> </ul> | <p>Any company excluded from EU Paris-aligned benchmarks (per Article 12(1) of Delegated Regulation (EU) 2020/1818).</p> <p>New projects to explore, extract, distribute or refine hard coal, lignite, oil fuels or gaseous fuels or new projects that do not have a plan to phase out from, exploration, mining, extraction, distribution, refining or exploitation of hard coal or lignite for power generation.</p>  |

- **In addition, the Commission has proposed a new provision under Article 9(a)(1)** to determine how products that are exposed to categorised products (for example, funds of funds structures or secondaries strategies) or make investments that meet the requirements of categorised products, should assess their own eligibility to a particular category. Such products can qualify for a category themselves if they meet the 70% threshold of investments in a categorised product (or investments that meet the requirements of that product) and comply with the corresponding exclusion criteria. To qualify for the Sustainable category, the 70% threshold must consist solely of products or investments meeting the Sustainable category criteria. In comparison, in order to qualify for the Transition category, the 70% threshold can consist of products or investments meeting the Transition and Sustainable categories' criteria, and to qualify for the ESG Basics category, the 70% threshold can consist of products or investments that satisfy the criteria for Transition, Sustainable or ESG Basics. This approach indicates a sustainability hierarchy between the categories, reminiscent of SFDR 1.0. Non-categorised products that invest in, are exposed to, or are constituted of two or more underlying products falling within the three primary categories will have to annually disclose certain information on the composition of their portfolios..
- **Products that do not fall within any of the new proposed product categories set out in the table above will be non-categorised and would have no minimum investment thresholds and no excluded investments.** These funds will not be able to use sustainability-related information: (i) in the name of the fund or in marketing communications; (ii) as a "central element" of the pre-contractual disclosures (i.e. less than 10% of the volume of marketing materials describing the investment strategy can be devoted to such information); and (iii) in any key investor information document. In addition, Article 6(a) funds will not be able to make a claim that would fall under the product categories specified under Articles 7-9 of SFDR 2.0. In contrast to SFDR 1.0, the proposal introduces a new requirement for Article 6(a) products to annually report on their consideration of the sustainability factors.
- **A designated "Impact" label has not been included in the SFDR 2.0,** however, a product falling within the "Transition" or "Sustainable" categories, with an objective of making a pre-defined positive and measurable social or environmental impact, will be permitted to use the term "impact" in its name and make use of other impact terminology. This type of product is referred to as "sustainability-related financial product with impact" and will be subject to specific additional disclosure requirements, such as the requirement to disclose the intended impact(s) in terms of specified environmental or social objectives, underpinned by a pre-set impact theory. This responds to industry requests to clarify how to integrate impact investing into a formal product categorisation system.

## PRACTICAL GUIDANCE

Next steps depend on the specifics of a fund and its timing:

- **Closed-ended funds that have finished fundraising and are fully closed before SFDR 2.0 enters into force** will not be required to reclassify under SFDR 2.0 and the expectation is that SFDR 1.0 Article 8 and 9 funds will continue to report in line with the SFDR 1.0 RTS prescribed ongoing reporting templates.
- **Funds expected to be launched around 2027/2028 will need to carefully consider timing of SFDR 2.0 coming into force, given that the proposal does not include any specific grandfathering provisions.** The expectation is that sponsors will want to plan ahead to try to avoid – insofar as possible – actively fundraising at the time SFDR 2.0 comes into force so they do not have to reclassify (and provide pre-contractual disclosures to investors in line with SFDR 1.0, then reclassify and provide amended disclosures in line with SFDR 2.0 during active fundraising).
- **Managers of open-ended funds should plan their compliance in advance of the implementation date and map out contractual, regulatory and commercial steps required to effect the transition.** Those currently contemplating launching an evergreen fund might consider opting for a current Article 6 product to avoid a potentially troublesome and complex switch to one of the new product categories in due course.

- **EU Member States will not be able to gold-plate SFDR 2.0 – it is a regulation, so once in force, it will automatically become enforceable law in all Member States.** In addition, the Commission has explicitly stated in the SFDR 2.0 recitals that national competent authorities should not set or apply additional requirements as regards the consideration

and disclosures of sustainability risks, or as regards the criteria, procedures, and disclosures concerning the categorisation of sustainability-related financial products, in order to avoid fragmentation in the market.

## For More Information

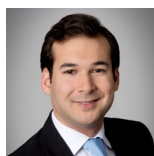
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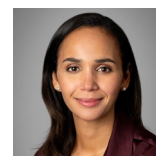
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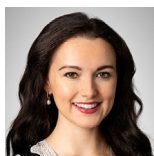
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