

## SFDR 2.0 UPDATE – EUROPEAN PARLIAMENT ADOPTS ITS DRAFT NEGOTIATION POSITION

The legislative process for reforming the EU Sustainable Finance Disclosure Regulation (“**SFDR**”) has advanced with the April 2026 publication of the European Parliament’s **draft negotiation position** (the “**Parliament’s draft position**”). The Parliament’s draft position is a response to the European Commission’s proposal for “**SFDR 2.0**” published in late 2025 (see our **briefing** for more information). Importantly, it represents Parliament’s initial (not final) negotiation stance and therefore is subject to further discussion and amendment.

Below we set out the key proposed amendments and next steps.

Topic	Commission’s Proposal (November 2025)	Parliament’s draft position (April 2026)
<b>Non-categorised products (Article 6a products)</b>	Non-categorised products should refer to sustainability factors in pre-contractual disclosures only as a non-central element (less than 10% of the investment strategy presentation), and not in names, marketing communications or PRIIPs KIDs.	As an additional requirement compared with the Commission’s proposal, non-categorised products should also include a disclaimer that they “do not meet the EU standards for defining sustainable financial products and protecting against greenwashing”, including in PRIIPs KIDs.
	No restriction on referencing voluntary sustainability-labelling schemes.	References to voluntary sustainability labels are not permitted unless they meet the requirements for the categorisation under Article 7, 8 or 9.
<b>Qualifying into ‘Transition’ and ‘Sustainable’ categories (Article 7 and Article 9 products)</b>	Taxonomy alignment threshold of 15% is required to qualify into the proposed Transition or Sustainable category.  The Commission is empowered to adjust this threshold by delegated act.	Taxonomy alignment threshold of 20% is required to qualify into the proposed Transition or Sustainable category.  The Commission is required to conduct a review of this threshold every 36 months from SFDR 2.0’s entry into force.
	Funds tracking EU Climate Transition Benchmarks (Transition) or EU Paris-Aligned Benchmarks (Transition or Sustainable) automatically satisfy the relevant category conditions.	Funds tracking EU Climate Transition or Paris-Aligned Benchmarks will not automatically satisfy Transition / Sustainable category conditions and must independently meet category requirements, which also apply to investment exclusions.
<b>Qualifying into ‘ESG Basics’ category (Article 8 products)</b>	Products may qualify on the basis of outperformance against an average ESG rating or sustainability indicator. No bottom-cut required.	Qualifying products must exclude at least the bottom 20% of lowest-rated securities/assets before measuring outperformance against chosen indicators or ratings.
	No principal adverse impact (“PAI”) identification or disclosure obligation for ESG Basics products.	ESG Basics products must identify and disclose PAIs and explain remediation measures.
<b>Engagement strategies for categorised products</b>	Sustainability-related engagement strategies are listed as a qualifying investment approach only for Transition products.	All categorised products must disclose their sustainability-related engagement strategy and implementation, or explain why none exists.
<b>PAI regime</b>	PAI disclosure for Transition and Sustainable products is voluntary: financial market participants “may” use appropriate sustainability-related indicators. Voluntary indicator list to follow through technical standards.	Reverses the Commission’s voluntary approach. Categorised products must disclose a limited mandatory set of PAIs plus additional voluntary material indicators. Further detail to follow through technical standards.
	Firm-level PAI and remuneration regime of SFDR 1.0 to be deleted, but only from the general application date (18 months after entry into force).	Firm-level burden reliefs from PAI and remuneration policy disclosures should start applying immediately upon SFDR 2.0’s entry into force (rather than from the application date).

<b>Sovereign debt investment</b>	For Transition and Sustainability products, investments in public sector bodies cannot count towards the 70% threshold.	In addition to public sector investments not counting towards the 70% threshold, sovereign debt investments – by funds using any of the three categories – must nevertheless align with the fund's sustainability-related strategy.
<b>Application date and transitional timing</b>	18-month implementation period after Level 1 entry into force (with an additional 12 months for IBIPs, pension products, pension schemes and PEPPs).	24-month implementation period after Level 1 entry into force (indicatively, 1 January 2029).  As noted above, burden relief elements should apply from the date of Level 1's entry into force (indicatively, 1 January 2027).

## TIMELINE OF LEGISLATIVE PROCEDURE AND NEXT STEPS

The Parliament is expected to formally vote on, and adopt, its final negotiation position in Q3 2026; before which the EU Council intends to adopt its own negotiation position in June 2026, by the end of the Cyprus Presidency. Formal trilogue negotiations between the Parliament, Council and Commission are expected to follow in Q4, with a compromise Level 1 text anticipated by the end of the year. 2027 should then see the development of implementing regulatory technical standards.





For now, fund managers should:

- monitor the EU institutions' adoption of their respective negotiation positions and trilogue debates;
- for current / near-term closed-ended fundraises, consider the proposals in the context of evolving LP expectations; and
- for evergreen / open-ended funds, consider the impact of the regime more closely and once the Level 1 text is agreed, be ready to map existing SFDR Article 8 and Article 9 funds against the proposed new categories (Sustainable, Transition, ESG Basics) to assess where each fund could sit and further understand the implications.



## For More Information

For more information, or to be added to our Sustainability & ESG mailing lists, please contact any of the authors below.

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