

SFDR 2.0 – STATE OF PLAY

The European Parliament confirmed its negotiating position on the proposed overhaul of the Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) ("SFDR 2.0") in October 2026. As a recap, the European Commission published its proposal in November 2025 and the Council of the EU adopted its position in June 2026, meaning the institutions are now ready for trilogues. The first trilogue is expected to take place on 22 October 2026. In terms of timing, an agreed final text of SFDR 2.0 is considered possible by the end of 2026, but the implementation timetable is relatively long and uncertain – early to mid-2029 is considered a realistic application date.

In advance of the first trilogue, the Council of the EU have **published** a three-column table setting out the institutions' full opening positions. Our table below spotlights key sticking points which are likely to be a focus of the negotiations. Our Appendix separately steps through what each of the proposed "core categories" may look like under SFDR 2.0.

Topic	European Commission	Council of the EU	European Parliament
Core categories	- Replaces Articles 8 and 9 of the existing SFDR regime with categories named in the Appendix. - Deletes the SFDR 1.0 "sustainable investment" definition.	Agrees with the Commission.	Agrees with the Commission and the Council.
70% threshold of investments	- A minimum portion of 70% of investments in core-category-alignment requirement, including a phase-in period. - Catch-all for "other investments" across all three categories, with "proper justification".	- Agrees with 70% threshold but caps the phase-in period at three years. - Private assets and real assets can demonstrate compliance with 70% threshold through documented, asset-class-appropriate evidence and methodologies.	70% core-category-alignment requirement, including an undefined phase-in period. - Reliance on the catch-all "proper justification" provision should be accompanied by an explanation of why the investment does not fall within any of the other prescribed investment approaches.
70% threshold for ESG Basics	- Performance on one sustainability indicator better than average investment universe or benchmark. - Proven positive track record in processes, performance or outcome related to sustainability factors. - Catch-all for other investments integrating sustainability factors beyond risk management with proper justification.	- Performance on at least two sustainability indicators better than average investment universe or benchmark. - No separate positive track record category (track record is relevant only within the catch-all below). - Catch-all for other investments integrating sustainability factors beyond risk management giving preference to assets, having a positive proven track record with proper justification, for private/real assets this may be demonstrated by documented asset-class appropriate evidence and methodologies.	- Performance on at least two sustainability indicators better than average investment universe or benchmark. - Proven positive track record in processes, performance or outcome related to sustainability factors. - Catch-all for other investments integrating sustainability factors beyond risk management with clear and concise justification.
70% shortcut – Taxonomy alignment	For Transition and Sustainable products, 15% Taxonomy-aligned investments.	Same as Commission.	Same as Commission for Transition products; but 20% threshold for Sustainable products.

Topic	European Commission	Council of the EU	European Parliament
70% shortcut – climate benchmarks	For Transition and Sustainable products, investments tracking or managed against an EU Climate Transition or Paris-aligned benchmark (CTB and PAB for Transition; PAB only for Sustainable) also qualify.	Same as Commission, but covers products whose investment strategy and allocation meet the CTB or PAB methodological requirements (rather than products tracking a benchmark).	Combines the Commission and Council approaches (i.e., a product can qualify by tracking or referencing the relevant benchmark, or by meeting the CTB or PAB methodological requirements).
70% shortcuts – public bodies	None.	For Transition products, up to 15% of the portfolio counting towards the 70% threshold may be general-purpose bonds issued by EU public bodies.	Agrees with Council.
Opt-out 1 – closed funds	Exemption for closed-ended AIFs created and distributed before SFDR 2.0's date of application.	Closed funds can opt out of SFDR 2.0. There is no express provision to continue with SFDR 1.0 for the remaining life of the fund.	Agrees with Council on the principle, but keeps the Commission's test and expressly preserves compliance with contractual commitments and sustainability disclosures made under SFDR 1.0.
Opt-out 2 – professional investors	No exemption for professional-investor-only products.	- Managers can opt out of rules on product categories, sustainability disclosures for non-categorised products and marketing rules for AIFs available exclusively to per se professional clients under MiFID II. - Opted-out AIFs are released from sustainability-related disclosure requirements (Article 6a) and restrictions on sustainability-related claims in fund names and marketing (Article 13(3)), but remain subject to requirements to disclose how sustainability risks are integrated into investment decisions (Article 6). No requirement to state reasons for opting out.	- Agrees with Council but subject to (i) no retail investor having access; and (ii) a disclaimer in the fund documents, with the reasons for opting out. - Unlike the Council, does not disapply the restrictions on sustainability-related claims in fund names and marketing (Article 13).
Exclusions	- Common exclusions across all three categories: prohibited weapons, tobacco production, violations of UN Global Compact (UNGC)/OECD Guidelines; and companies with 1% or more of revenues from coal/lignite. - The Transition and Sustainable categories exclude companies developing new coal, oil and gas projects.	- Deletes the 1% or more coal / lignite revenue exclusion for Transition category. - For the Transition category, replaces the Commission's exclusion of companies developing new coal, oil and gas projects with a revenue-based exclusion of fossil fuel companies, unless they meet conditions (at least 20% of total capex into Taxonomy-aligned activities and a clear, time-bound plan to reduce Scope 1 and 2 emissions).	- Unlike Council, keeps the 1% or more coal / lignite revenue exclusion for Transition category. - Unlike the Commission and Council, replaces the UNGC reference with the UN Guiding Principles on Business and Human Rights (UNGPs): UNGP/OECD violation must relate to "severe" human rights and humanitarian law abuses which have not been effectively addressed and, where appropriate, remediated. - Like the Council, it replaces the exclusion of companies developing new coal, oil and gas projects in the Transition category with a revenue-based exclusion, with conditions which go further than the Council's, including an extra condition (over a rolling three-year period, Taxonomy-aligned capex must exceed capex on new fossil fuel projects).

Topic	European Commission	Council of the EU	European Parliament
PAI indicators	- Entity-level PAI and remuneration disclosures removed. - Product-level PAI mandatory for Transition and Sustainable products; use of indicators from the Commission's list is optional.	- Agrees with Commission on entity level. - Product-level PAIs mandatory for Transition and Sustainable products, with mandatory use of at least three indicators from a prescribed list.	- Agrees with Commission and Council on entity level. - Product-level specific PAIs mandatory for Transition and Sustainable products (fossil fuel exposure for all three; GHG emissions for Transition and Sustainable; biodiversity-sensitive areas and UNGP/OECD compliance processes for Sustainable only), plus investment-specific indicators.
Non-categorised (Article 6a) naming and marketing	May include sustainability-related information only on a limited basis and the information must not be a central feature of pre-contractual disclosures (less than 10% of the investment strategy section); no sustainability-related claims in names or marketing.	Permits disclosure of sustainability-factor integration while retaining anti-greenwashing restrictions. Standard disclaimer required.	Extends the Commission's position such that ancillary sustainability information must accurately reflect actual investments, remain secondary (capped at 10% of strategy presentation), and not reference labels whose features do not exceed category criteria. Prominent disclaimer required; no sustainability claims in names or marketing.
Timing and implementation	- General application 18 months after entry into force of Level 1. 12 months later for insurance and pension products.	- General application 24 months after entry into force of Level 1. - Optional 12 months later for insurance and pension products.	- General application same as Council. 12 months later for insurance and pension products.
Early relief / transitional provisions	No immediate relief on SFDR 1.0 obligations which are removed by SFDR 2.0.	Immediate relief on SFDR 1.0 rules on portfolio management, financial advisers and PAI at entity level.	Agrees with Council.

PRACTICAL IMPLICATIONS AND NEXT STEPS

- The existing SFDR regime continues to apply and will continue to do so for some time. Even once agreed at Level 1 (the primary legislative framework), the SFDR 2.0 Level 2 detail (delegated and implementing acts) will take more time to develop.
- Be ready to answer LP questions about SFDR 2.0 plans.
- Keep monitoring the legal developments but consider waiting for an agreed Level 1 text before more detailed engagement.
- Ensure relevant teams are trained on the specifics of the regime, including the categories and any relevant opt-outs or exclusions.
- At the right time, map current Article 8 and 9 products and disclosures against the proposed category criteria to identify likely gaps.
- Consider how offering, contractual and investor-reporting documentation should address a regime whose scope is not yet fixed.

For More Information

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



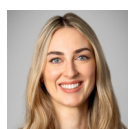
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APPENDIX: SFDR 2.0 FUND CATEGORIES

CORE CATEGORIES		EXAMPLES
“Transition” (Article 7)	Invest in the transition of undertakings, economic activities, or other assets towards sustainability, or contributing to such transition	- Investments in portfolios replicating or managed according to an EU Climate Transition or Paris-aligned benchmark - Sponsor-applied credible sustainability-related engagement strategy, targeting specific changes (such as decarbonisation) with defined milestones, and escalation actions in case of stalled progress (not a stand-alone route: it must be combined with another listed approach, such as a credible transition plan or science-based targets) - Credible transition target set at the level of the portfolio, such as reduction of portfolio emissions over time
Transition with “impact” add-on (Article 7(4) and 2(26))	Satisfy the Art 7 threshold AND have as their objective “the generation of a pre-defined, positive and measurable social or environmental impact”	- Same criteria and eligible investments as for Transition above - Plus disclosure of the intended impact, underpinned by a pre-set impact theory, and how it will be measured, managed and reported - Only these products may use “impact” in their name
“ESG Basics” (Article 8)	Integrate sustainability factors in their investment strategy, beyond the consideration of sustainability risks. <i>NB. This definition has been subject to particular debate, further detailed in the table above</i>	- Investments that perform better than the average of the investment universe or reference benchmark, either on their ESG rating or on a specific sustainability measure (for example, lower carbon emissions) - Favours undertakings or economic activities with a proven positive track record of processes, performance or outcomes related to sustainability factors - Investments which combine the above with qualifying Transition or Sustainable investments
“Sustainable” (Article 9)	Invest in sustainable undertakings, sustainable economic activities or other sustainable assets, or contribute to sustainability	- Investments in portfolios replicating or managed according to an EU Paris-aligned benchmark - Taxonomy-aligned economic activities - EU Green Bonds - EU Social Entrepreneurship Funds (EuSEF) - Undertakings, economic activities or assets that contribute to an environmental or social objective provided that a proper justification is included in investor disclosures
Sustainable with “impact” add-on (Article 9(4) and 2(26))	Satisfy the Art 9 threshold AND have as their objective “the generation of a pre-defined, positive and measurable social or environmental impact”	- Same criteria and eligible investments as for Sustainable above - Plus disclosure of the intended impact, underpinned by a pre-set impact theory, and how it will be measured, managed and reported - Only these products may use “impact” in their name

COMBINATION PRODUCTS		
Cross-category combination / mixed scope (Article 9a(1))	Meet the threshold for Transition, ESG Basics and / or Sustainable	
Mix of non-categorised with a share of (two or more) categorised products (Article 9a(2))	- Invest in two or more categorised products - Must disclose the share invested in underlying categorised products and in other assets	Multi-option insurance or pension products offering a mix of categorised and non-categorised options (the Council would also extend this to non-categorised funds of funds)

NON-CATEGORISED PRODUCTS	
Non-categorised (Article 6a(1))	- Products not in scope of any of the above categories - Managers may voluntarily include sustainability “factors” (subject to limitations) in product disclosures