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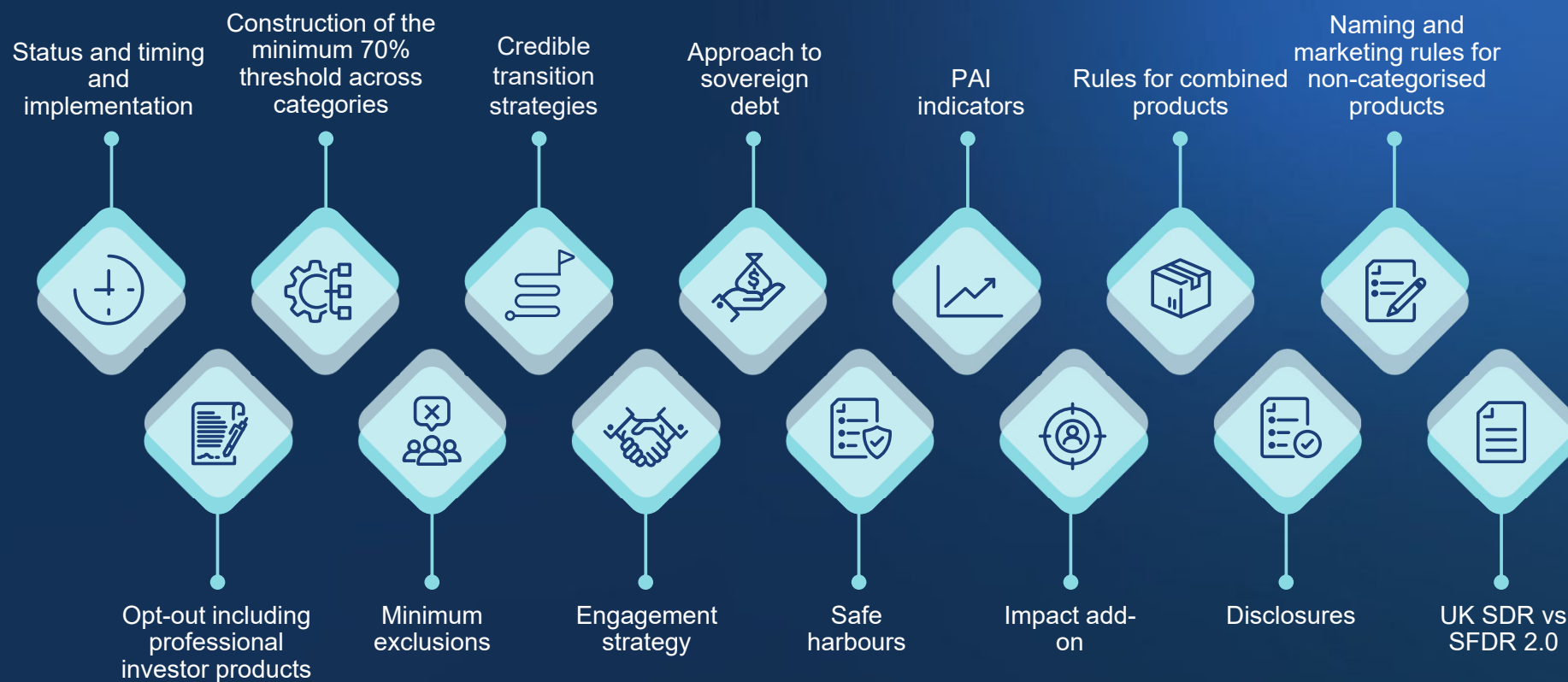
SFDR 2.0 in focus:

Where Council and European Parliament stand and
what comes next

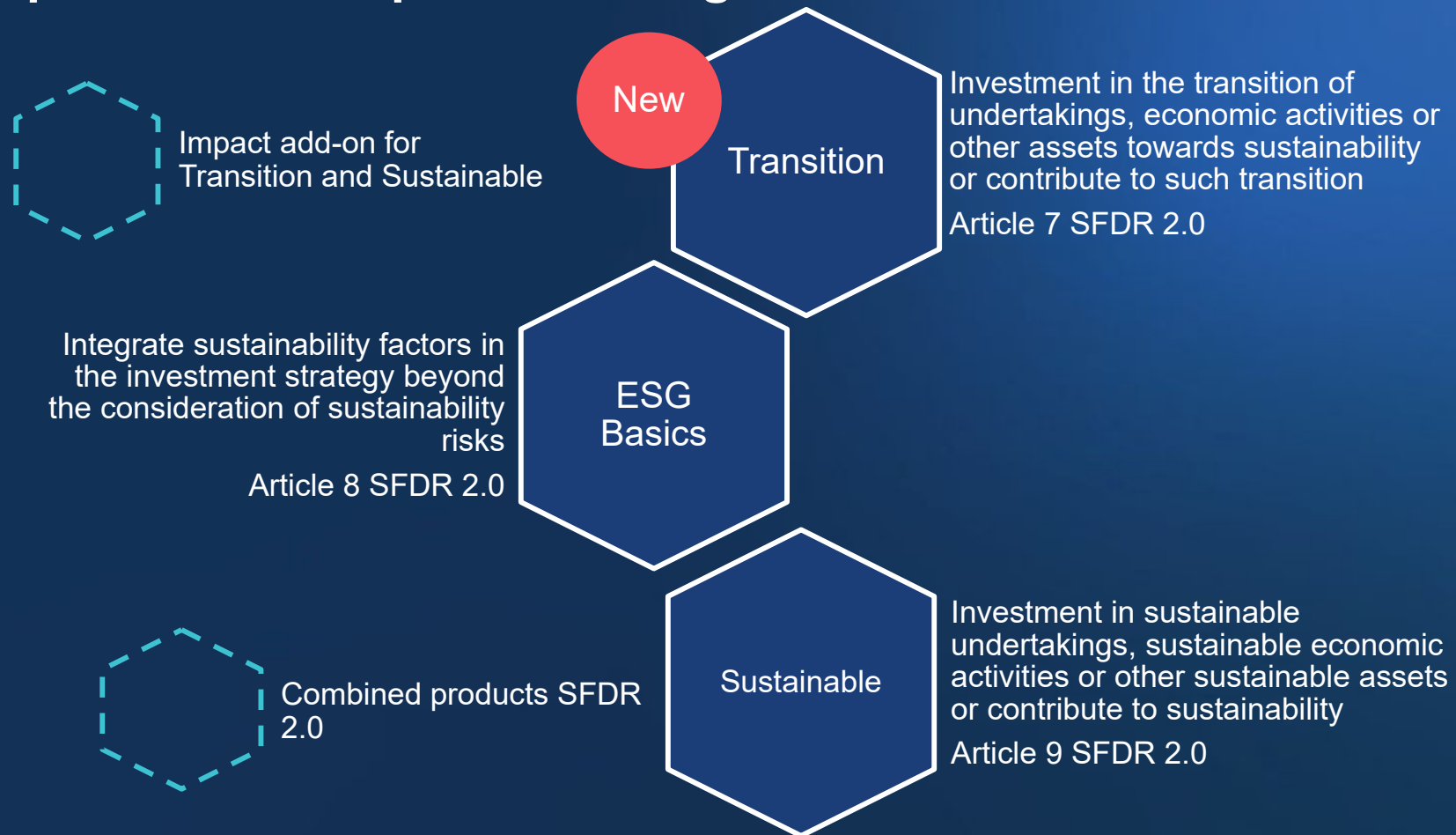
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Areas under the microscope

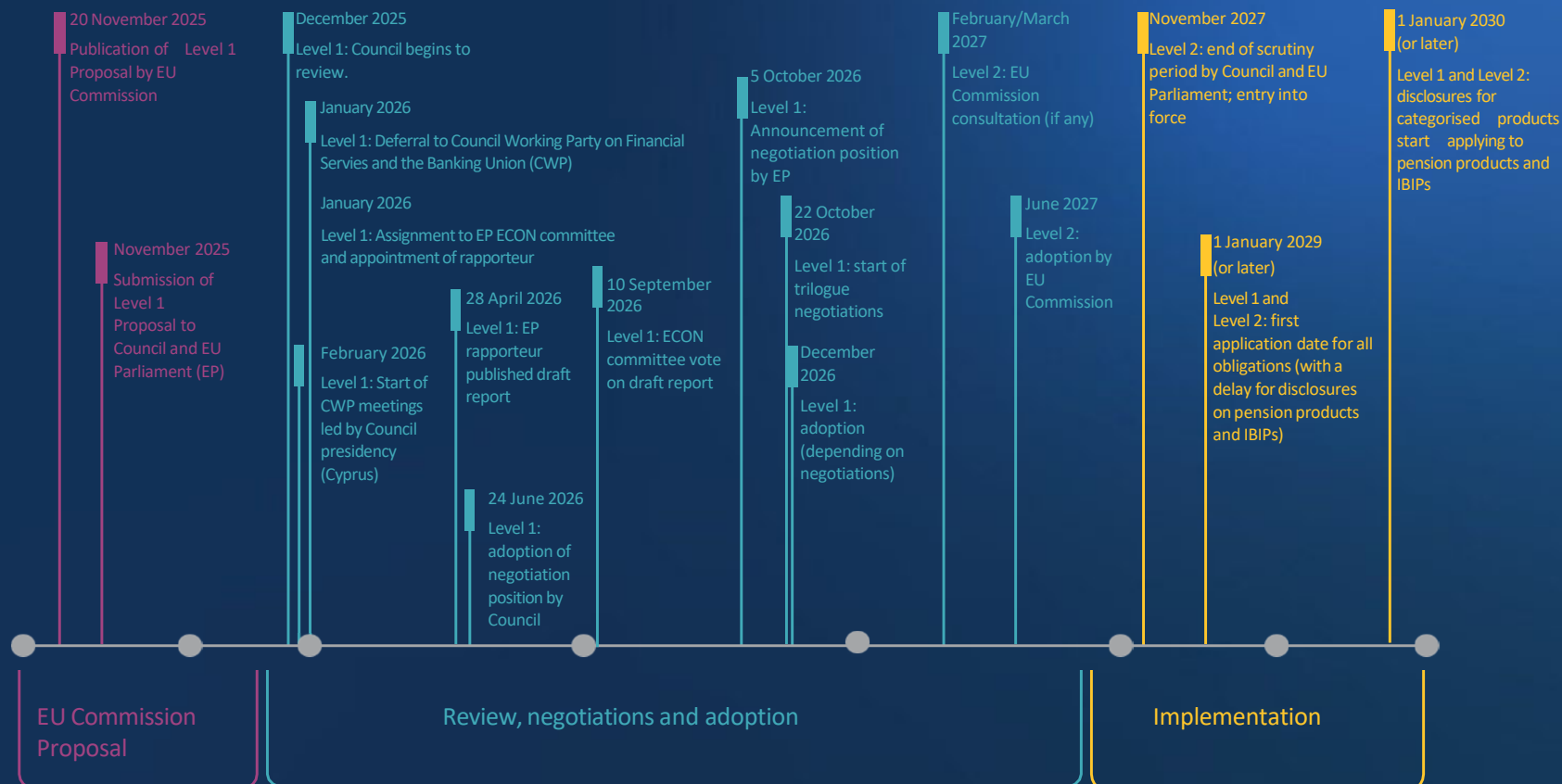


Recap on SFDR 2.0 product categories



Status of the legislative proposal

(Earliest) possible timeline and implementation



Timing and implementation



The European Commission

- General application date: **18 months** after entry into force of Level 1
- Insurance and pension products: SFDR 2.0 applies 12 months later (i.e. 30 months after entry into force of Level 1)
- No immediate relief on SFDR 1.0 obligations which are removed by SFDR 2.0



The Council

- General application date: **24 months** after entry into force of Level 1
- Insurance and pension products: FMPs can choose to postpone product-specific rules by another 12 months (i.e. 36 months in total)
- Immediate relief: From entry into force of Level 1, rules under SFDR 1.0 on portfolio management, financial advisers and PAI at entity level are disapplied



The European Parliament

- General application date: **24 months** after entry into force of Level 1
- Insurance and pension products: SFDR 2.0 applies 12 months later (i.e. 36 months after entry into force of Level 1)
- Immediate relief: From entry into force of Level 1, rules under SFDR 1.0 on portfolio management, financial advisers and PAI at entity level are disapplied

Opt-outs (including professional investor products)



The European Commission

- **Closed-ended products:** FMPs can opt out of product-related SFDR 2.0 rules for closed-ended financial products created and distributed prior to Level 1 application date
- **Professional investor products:** No opt-out



The Council

- **Closed-ended products:** FMPs can opt out of product-related SFDR 2.0 rules for closed-ended financial products closed to new investors and no longer offered to investors after the Level 1 application date
- **Professional investor products:** FMPs can opt-out of rules on product categories, sustainability disclosures for non-categorised products and marketing rules for alternative investment funds made available exclusively to per se professional clients under MiFID II



The European Parliament

- **Closed-ended products:** FMPs can opt out of product-related SFDR 2.0 rules for financial products created and distributed prior to Level 1 application date but must continue to comply with SFDR 1.0
- **Professional investor products:** FMPs can opt out of rules on product categories and sustainability disclosures for non-categorised products for alternative investment funds made available exclusively to per se professional investors under MiFID II, subject to (i) no retail investor having access; and (ii) disclaimer and explanation in the fund documents

Construction of the 70% threshold across categories



The European Commission

- Includes phase-in period for new financial products to meet 70% threshold
- Catch-all for "other investments" across all three categories, with "proper justification"



The Council

- Introduces 3-year cap on phase-in period for new financial products to meet the 70% threshold
- Catch all clarifies that private assets and real assets can demonstrate compliance with 70% threshold through documented, asset-class-appropriate evidence and methodologies



The European Parliament

- Includes phase-in period for new financial products to meet 70% threshold
- 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

Construction of the 70% threshold: ESG Basics



The European Commission

- 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: Other investments integrating sustainability factors beyond risk management with proper justification



The Council

- Performance on at least two sustainability indicators better than average investment universe or benchmark
- No separate positive track record category
- Catch all: 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



The European Parliament

- 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: Other investments integrating sustainability factors beyond risk management with clear and concise justification

Minimum exclusions



The European Commission

- Common exclusions across all three categories: controversial weapons, tobacco production, violations of UNGP/OECD Guidelines, and coal production; Additional exclusions for Transition and Sustainable: new fossil fuel production and coal production for power generation
- Minimum exclusions apply to all investments throughout the holding period
- Commission to define permitted deviations from exclusion criteria in Level 2



The Council

- Deletion of coal production exclusion for Transition category
- Level 2 delegation specified: permitted deviations to be defined by Commission should cover hedging as well as delayed divestment from illiquid assets



The European Parliament

- Exclusion for companies in violation of UNGP/OECD redrafted: violation must relate to "severe" human rights and humanitarian law abuses which have not been effectively addressed and, where appropriate, remediated" – removed reliance on benchmark administrator findings and added concepts of severity and recognition of remediation
- Level 2 delegation extended to permit deviations where the FMP has taken all reasonable measures, the deviation is of limited duration, and is transparently disclosed to investors

Minimum exclusions – fossil fuels under Transition category



The European Commission

- No investment in companies that develop new projects (i) for the exploration, extraction, distribution or refining of hard coal and lignite, oil fuels or gaseous fuels or (ii) for the exploration, mining, extraction, distribution, refining or exploitation of hard coal or lignite for power generation without a phase-out



The Council

- Full exclusion for companies that derive revenues from the exploration, extraction, mining or refining of hard coal and lignite, oil fuels or gaseous fuels (not just new projects), unless they:
 - allocate at least 20% of total CapEx to Taxonomy-aligned economic activities; and
 - have a time-bound, measurable Scope 1 and 2 emissions-reduction strategy compatible with the Paris Agreement



The European Parliament

- Full exclusion with the same carve-out conditions as the Council, plus two additional ones:
 - where hard coal or lignite is used for power generation, companies have a time-bound and measurable phase-out plan; and
 - over a rolling three-year period, companies allocate on average more capex to Taxonomy-aligned activities than to new hard coal/lignite, oil fuel or fossil gaseous fuel projects

Credible transition strategies



The European Commission

- Permits a broad range of transition investment approaches outside of Climate Benchmarks and Taxonomy which can be determined by the FMP, including credible transition plans, science-based targets, portfolio transition targets or other credible contributions to transition



The Council

- Additional credibility requirements for FMP-led approaches:
 - Appropriate, documented and regularly updated due diligence process
 - Monitoring to assess progress, including processes to address underperformance
 - When relying on company transition plans or science-based targets, FMPs must examine governance/resources, existence of targets/milestones and strategy and actions



The European Parliament

- Additional credibility requirements aligned with Council

Engagement strategy



The European Commission

- Eligible Transition investment approach: investments accompanied by credible sustainability-related engagement strategies (with milestones, targets and escalation) but only in combination with another approach, no stand-alone recognition



The Council

- Additional operational requirements for a Transition investment approach relying on engagement:
 - Due diligence processes
 - Process to monitor and assess progress and address underperformance



The European Parliament

- Aligns with Council on additional operation requirements
- New disclosure for all categorised products (Transition, ESG Basics, Sustainable): description of the sustainability-related engagement strategy and its coverage of the portfolio or provide a clear and reasoned explanation if none is pursued

Approach to sovereign debt



The European Commission

- Debt issued by public sector bodies (sovereign debt) is excluded from counting toward the 70% threshold for Sustainable and Transition outside of EU Green Bonds (Taxonomy alignment) and other use-of-proceeds instruments
- Sovereign debt may count for ESG Basics without additional specifications



The Council

- Clarification of the admission of EU Green Bonds and use-of-proceeds instruments within the 70% threshold under all categories, subject to meeting the respective eligibility criteria
- General purpose sovereign debt (GPSD) issued by EU public sector bodies may count for Transition 70% threshold up to max. 15% of portfolio if FMP can demonstrate alignment with transition objectives based on formalised methodologies
- For ESG Basics, GPSD must be assessed using formalised methodologies and be aligned with sustainability-related claims
- Multilateral development banks removed from the definition of public sector bodies



The European Parliament

- Admission of EU Green Bonds and use-of-proceeds instruments in line with Commission and Council, adds loan facilities financing eligible activities as eligible investments within 70% threshold for Transition and Sustainable
- Same position on GPSD as Council in the context of Transition and ESG Basics
- GPSD held in 30% of “other” investments for Transition, ESG Basics and Sustainable should not be inconsistent with the product’s sustainability-related objective/strategy
- Follows Council definition of public sector bodies

Safe harbours



The European Commission

- **“Shortcuts” for Transition:** CTB / PAB benchmark alignment or $\geq 15\%$ Taxonomy-aligned investments
- **“Shortcuts” for Sustainable:** PAB benchmark alignment or $\geq 15\%$ Taxonomy-aligned investments



The Council

- **“Shortcuts” for Transition:** CTB / PAB benchmark alignment or $\geq 15\%$ Taxonomy-aligned investments
- **“Shortcuts” for Sustainable:** PAB benchmark alignment or $\geq 15\%$ Taxonomy-aligned investments



The European Parliament

- **“Shortcuts” for Transition:** CTB / PAB benchmark alignment or $\geq 15\%$ Taxonomy-aligned investments
- **“Shortcuts” for Sustainable:** PAB benchmark alignment or $\geq 20\%$ Taxonomy-aligned investments

PAI Indicators



The European Commission

- PAI indicators **fully voluntary** for Transition and Sustainable categories; FMPs may choose to comply with the PAI disclosure requirement by using appropriate sustainability-related indicators



The Council

- PAI indicators **partially mandatory** for Transition and Sustainable categories: ≥ three relevant indicators from delegated act list required; alternatives only where none of the listed indicators is relevant
- Additional mandatory indicator where Transition product is permitted to invest in hard coal and lignite, oil fuels or gaseous fuels, on the proportion of investments in companies active in those sectors



The European Parliament

- **Transition: mandatory indicators:** (i) exposure to companies in fossil fuel sector; (ii) GHG emissions; plus at least one additional indicator; where no listed indicator is relevant, another transparent methodology may be used
- **ESG Basics: mandatory indicator:** exposure to companies in fossil fuel sector. Other relevant PAI indicators may be disclosed voluntarily
- **Sustainable: mandatory indicators:** (i) exposure to companies in fossil fuel sector; (ii) GHG emissions; (iii) activities negatively affecting biodiversity, and (iv) exposure to companies without processes to monitor UNGP/OECD compliance

Impact add-on



The European Commission

- Available only for Transition and Sustainable; not for ESG Basics
- Additional pre-contractual and periodic disclosures: intended impact, impact theory, investment and investor contribution
- Term 'impact' in product names restricted to products using the add-on



The Council

- Recital (20): Requires "intentionality to achieve real-world impact and the measurement of such impact" within a theory of change accompanied by ad-hoc reporting on outcomes
- Should aim to address environmental or social needs, in particular those "underserved by market or public interventions"



The European Parliament

- Focus on making SFDR 2.0 workable for investments in emerging and developing economies
- Recital (27a) suggest for Platform on Sustainable Finance to build sub-group advising Commission on relevant issues (e.g. implementation, data availability, credible international standards and approaches)

Rules for combined products (fund of funds, multi-option products)



The European Commission

- Products investing into other categorised products qualify as ESG Basics, Transition or Sustainable if they (i) invest at least 70% into relevant categorised products or direct investments aligned with category requirements; and (ii) comply with the minimum exclusions
- Products remaining below 70% which invest into at least two categorised products can make limited disclosures on the share of categorised products in their portfolio

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The Council

- Extensive clarifications added:
 - Non-categorised investment options of a PRIIP can be considered as direct investments aligned with category requirements
 - How to determine to which category a product meeting the 70% threshold is allocated
 - The type of disclosures made by PRIIPs offering investment options, including via references and weblinks
 - Disclosure on share of categorised products for products remaining below 70% applies regardless of number of categorised products held ("at least two" is removed)



The European Parliament

Aligned with Council clarifications

Recap: disclosures under SFDR 2.0

Level	Products	Website	Pre-contractual	Periodic
Entity level		Integration of sustainability risks into the decision-making process <i>Information on categorised AuM on an annual basis (EP)</i>		
Product level	All products		Integration of sustainability risks into investment decisions and assessment of likely results on returns	
	Non-categorised products including information on consideration of sustainability factors		Limited voluntary disclosures permitted, but no claim to Transition, Sustainable or ESG Basics and not “central element”	Description of consideration of sustainability factors described in voluntary pre-contractual disclosures
	Products holding share of categorised products or other investments		Share of underlying categorised products and share of other investments aligned with category requirements	
	Transition, ESG Basics, Sustainable	Links to pre-contractual and periodic disclosures	Detailed information using Level 2 template	Extent to which objectives are met, or sustainability factors are integrated using Level 2 template
	Transition or Sustainable with impact add-on		Detailed information based on Level 2 provisions	Extent to which intended impact has been achieved, measured and managed (including investment and investor contribution) based on Level 2 provisions

Naming and marketing rules for non-categorised products



The European Commission

Non-categorised products may disclose whether/ how they consider sustainability factors, but information cannot be a central element or amount to sustainability-related claims reserved for categorised products

Must remain neutral, and occupy less than 10% of investment strategy disclosures



The Council

Key difference is that an “ESG Basic” type sustainability claim may be permitted

Adds mandatory pre-contractual disclaimer:

“This financial product does not meet the minimum criteria to qualify as a sustainability-related financial product under European Union law”



The European Parliament

Must represent the true composition of the product's investments and may only use voluntary sustainability-related labelling schemes which are more ambitious than Articles 7, 8 or 9

Mandatory non-categorisation disclaimer, stating that product is not required to disclose negative environmental impact

UK SDR vs. SFDR 2.0

UK SDR

Optional labels: Focus (high standard), Improvers (transition/stewardship), Impact (real-world outcomes); no hierarchy. Naming and marketing regime permits sustainability claims subject to certain requirements.

70% applies for all; no mandatory exclusions.

No taxonomy reference pending a UK Green Taxonomy; no PAI framework. FCA product KPIs use TCFD/ISSB standards.

Misleading claims restricted; no reserved terms. Engagement required when strategic; no specific sovereign treatment.

FRAMEWORK & CATEGORIES

THRESHOLDS & EXCLUSIONS

TAXONOMY & INDICATORS

MARKETING, ENGAGEMENT & SOVEREIGNS

SFDR 2.0

Mandatory claims categories: Transition (credible plans), ESG Basics (broad integration), Sustainable (environmental/social); escalating criteria. Cannot make sustainability claims if not within a category.

70% for all. All exclude weapons, tobacco, OECD/UNGP breaches and coal; Transition/Sustainable add fossil fuels.

Safe harbour: $\geq 15\%$ Transition, $\geq 20\%$ Sustainable (Parliament); minimum PAIs include GHG and fossil-fuel exposure.

Claims reserved; otherwise, disclaimer. Transition engagement: due diligence, monitoring, annual review. Sovereigns: conditional, methodology-based, 15%-pts cap.

SFDR 2.0 roadmap – what are possible next steps?

- ✓ Assess investor and distributor appetite for the new SFDR categories (Transition, ESG Basics and Sustainable) versus non-categorised products or opt-out
- ✓ Map existing products and pipeline strategies against the proposed category criteria, minimum exclusions and 70% threshold requirements. Identify products that may qualify, require redesign or benefit from any available opt-out regime
- ✓ Test whether proposed SFDR 2.0 strategies remain marketable across key jurisdictions. Identify areas where global sustainability objectives, terminology or disclosure expectations may diverge and/or other frameworks may be relevant (e.g. MiFID sustainability preferences)
- ✓ Evaluate data availability and reliability for eligibility criteria, exclusions, engagement metrics, transition plans and PAI-related indicators (reassessment required once Level 2 draft is available)
- ✓ Review product names, marketing materials, client communications and disclosures against the proposed anti-greenwashing and naming requirements and develop a remediation plan for products that may require repositioning, keeping in mind other relevant rules (e.g. EU EmpCo)
- ✓ Monitor further developments on key issues during negotiations (although positions are fairly aligned by now)
- ✓ Participate in consultations and industry working groups to influence outstanding Level 2 measures and technical standards





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Q&A



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For more information on sustainability-related topics, see our [ESG Notes](#). You can subscribe to the ESG Notes [here](#).