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IMPACT ASSESSMENT REPORT

accompanying the

Proposal for a Regulation of the European Parliament and of the Council

amending Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR), Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) and repealing Commission Delegated Regulation (EU) 2022/1288

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Table of contents

1. INTRODUCTION: POLITICAL AND LEGAL CONTEXT 4
2. PROBLEM DEFINITION 7
3. WHY SHOULD THE EU ACT? 16
4. OBJECTIVES: WHAT IS TO BE ACHIEVED? 17
5. WHAT ARE THE AVAILABILITY POLICY OPTIONS? 18
6. WHAT ARE THE IMPACTS OF THE POLICY OPTIONS AND HOW DO THEY COMPARE? 39
7. PREFERRED COMBINATION OF POLICY OPTIONS 62
8. HOW WILL ACTUAL IMPACTS BE MONITORED AND EVALUATED? 64

ANNEX 1: PROCEDURAL INFORMATION 66

ANNEX 2: STAKEHOLDER CONSULTATION (SYNOPSIS REPORT) 72

ANNEX 3: WHO IS AFFECTED AND HOW? 83

ANNEX 4: ANALYTICAL METHODS 110

ANNEX 5: COMPETITIVENESS CHECK 111

ANNEX 6: INTERACTIONS BETWEEN THE SFDR AND THE SUSTAINABLE FINANCE AND BROADER CORPORATE SUSTAINABILITY FRAMEWORK 113

ANNEX 7: ADDITIONAL BACKGROUND ON SPECIFIC SECTORS OR INVESTMENTS 120

ANNEX 8: ADDITIONAL INFORMATION AND ILLUSTRATIVE EXAMPLES OF POTENTIAL CRITERIA AND DISCLOSURES (OPTION 3.1 AND 3.2) AND APPROACH TO ESTIMATION124

SECTION 1: UNDERLYING CRITERIA FOR THE CATEGORIES PROPOSED UNDER OPTION 3.1 AND 3.2 125

SECTION 2: UNDERLYING DISCLOSURES FOR THE CATEGORIES PROPOSED UNDER OPTION 2.2 145

SECTION 3: SUGGESTED APPROACH TO ESTIMATION 149

ANNEX 9: EXAMPLES OF EXISTING ESG LABELLING REGIMES AND ESG RULES BY NCAS OR LABEL PROVIDERS 152

ANNEX 10: FINDINGS FROM CONSUMER TESTING STUDIES 157

ANNEX 11: EVALUATION 169

ANNEX 12: SME CHECK 190

Glossary

Term or acronym	Meaning or definition
AIFMD	Alternative Investment Fund Manager Directive
AUM	Assets under Management
CTB	EU Climate Transition Benchmarks
CSR	Corporate Social Responsibility
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union
ELTIF	European Long-Term Investment Funds
ESAs	European Supervisory Authorities
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
Eurosif	European Sustainable Investment Forum
EuSEF	European Social Entrepreneurship Funds
EuVECA	European Venture Capital Funds
FCA	Financial Conduct Authority (UK)
FMP	Financial Market Participant
FTE	Full-Time Equivalent
IBIPs	Insurance-based Investment Products
IDD	Insurance Distribution Directive
IORP	Institution for Occupational Retirement Provision

KID	Key Information Document
KPIs	Key Performance Indicators
MiFID	The Markets in Financial Instruments Directive
NCA	National Competent Authority
NGOs	Non-Governmental Organizations
OECD	Organization for Economic Cooperation and Development
OJEU	Official Journal of the European Union
PAB	EU Paris-aligned Benchmarks
PAI	Principal Adverse Impact
PEF	Product Environmental Footprint
PEPP	Pan-European Personal Pension Product
PRIIP	Packaged retail investment and insurance products
PSF	Platform on Sustainable Finance
RSB	Regulatory Scrutiny Board
RTS	Regulatory Technical Standards
SDG	Sustainable Development Goal
TFEU	Treaty on the Functioning of the European Union
UCITS	Undertakings for the Collective Investment of Transferable Securities

1. INTRODUCTION: POLITICAL AND LEGAL CONTEXT

This impact assessment concerns a proposed initiative to review Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR)[1].

1.1. Political context

The European Union is committed to meet the needs of the present without compromising future generations, with sustainability at the heart of these efforts. In this vein, the European Union established the legal objective of becoming a climate-neutral and climate resilient continent by 2050 in Regulation (EU) 2021/1119 on the European Climate Law, and it also committed to deliver an environmental transition supported by an innovative and circular economy, where biodiversity and ecosystems are protected and restored, and where pollution and environment-related health risks are reduced to the minimum as well as to meet the UN Sustainable Development Goals (SDGs) by 2030[2].

The EU estimates that to meet the objectives of the European Green Deal and RepowerEU alone, additional investments of about EUR 620 billion annually between 2023 and 2030 will be needed, which amounts to 3.7% of the EU's 2023 GDP[3]. The bulk of these will need to continue to flow from private sources, also building on efforts to ensure deeper and more integrated EU capital markets[4]. As a response to market demand and reflecting that achieving EU sustainability goals requires significant investments, with the bulk of it being provided by private financing, the European Commission introduced ambitious sustainability rules in financial services in recent years[5], building up the Sustainable Finance framework that includes the SFDR.

Applicable since March 2021, the SFDR was one of the first pieces of the EU Sustainable Finance framework. The SFDR is a disclosure framework which sets detailed sustainability disclosures for financial intermediaries and financial products regarding Environmental, Social and Governance (ESG) factors. Its objective is to increase transparency, combat greenwashing and protect end-investors by ensuring that financial market participants (FMPs) and financial advisers substantiate their ESG disclosures. The latter are required to ensure appropriate sustainability information to investors on their websites and in pre-contractual and periodic disclosures for financial products.

The Regulation rests on two pillars. First, it requires entity-level disclosures, namely for FMPs and financial advisers to explain how they integrate ESG considerations into their internal procedures, including their due diligence processes and consideration of responsible business practices. A crucial element is the introduction of the concept of double materiality, meaning that FMPs must not only consider sustainability risks (i.e. risks to their operations) but must also assess the impact of their investment decisions on the environment and society.

Second, as regards product-level disclosures, the SFDR encompasses a broad range of financial products including investment funds, insurance and pension products, requiring those within its scope that promote sustainability characteristics to be substantiated with accompanying disclosures. The SFDR in its Article 8 establishes that, for products that promote environmental or social

[1] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability- related disclosures in the financial services sector.
[2] These ambitions were laid out in the Communications on the European Green Deal (COM(2019) 640 final) and on A Strong Social Europe for Just Transition (COM(2020) 14 final).
[3] Strategic Foresight Report 2023 See also the impact assessment accompanying the 2040 climate target Communication
[4] Savings and investments union - European Commission
[5] Overview of sustainable finance - European Commission

characteristics, FMPs must show how the characteristics are promoted and met. Furthermore, in accordance with Article 9 of the SFDR, for products that have sustainable investment as their objective, FMPs must explain the sustainable objective and show how the objective is attained. Finally, for all products in the scope of the SFDR, under Article 6, FMPs must disclose how sustainability risks are integrated in the investment decision process and the results of the assessment of the likely impacts of sustainability risks on the returns of the products, where relevant, or explain why this is not the case. Double materiality also applies at product level. The responsibility for supervising these disclosures lies with the National Competent Authorities in each EU Member State while the European Supervisory Authorities (ESAs) play a coordinating role.

The SFDR and other pieces of sustainable finance legislation have had broad-reaching effects on the market. According to the Platform on Sustainable Finance (PSF)[6], a Commission expert group, the market development of funds that make claims in regulatory filings to be sustainable has been very sizeable in the EU since the SFDR was launched in 2021, clearly outpacing until 2023 the development of funds not stating to be considered sustainable[7]. Products disclosing ESG information under SFDR account for almost 50% of EU Assets under Management, representing more than 60% of EU funds: funds that promote ESG characteristics (in accordance with Article 8) accounted for 57.6% as of June 2024, while funds that have sustainability as one of their investment objectives (in accordance with Article 9) represented 3.4% of EU funds[8]. Europe is by far the largest market for such funds, accounting for up to 84% of global sustainable fund assets[9].

The Political Guidelines of the European Commission for 2024-2029 have reaffirmed that the EU will stay the course on the goals set out in the European Green Deal and aim to further scale-up sustainable finance in support of this as part of deeper more integrated capital markets. The focus is now also on simplification: reducing administrative burdens linked e.g. to sustainability reporting, with simpler rules, and better enforcement. In this context, it is important to consider whether the SFDR can be made more efficient, in line with these political priorities and policy objectives, and in the context of overarching efforts to improve the integration of EU financial markets to support productive investments[10]. A review of the SFDR is also foreseen in Article 19 of the Regulation.

The need for simplification in the field of sustainability reporting and due diligence was highlighted as well in the report "The future of European competitiveness" by M. Draghi, which underlined that excessive regulatory and administrative burden could hinder the competitiveness of EU companies compared to those from other blocs. According to the report, parts of the EU sustainable finance framework entail a major compliance cost for companies in the EU.

The evidence gathered to date as part of the review under Article 19 of the Regulation on the implementation of the SFDR signals that, while its objectives remain broadly supported, it is widely

[6] Platform on Sustainable Finance - European Commission

[7] Categorisation of products under the SFDR: Proposal of the Platform on Sustainable Finance According to Goldman Sachs Global Investment Research, cumulative flows into ESG equity funds have been 2.7 times higher compared to non-ESG counterparts from 2019 to 2023. However, since 2023, more inflows have gone into non-ESG (Article 6) funds compared to ESG funds (Article 8 and 9).

[8] Data based on FISMA calculations from Morningstar. These shares have remained relatively stable in recent years even amid some shifting investor preferences of late, including in the context of geopolitical changes.

[9] Recent quarterly figures show positive net inflows to EU sustainable funds between 2022 and end-2024. While Q1 2025 saw the first net outflows from EU sustainable funds, these represented only 0.04% of total fund assets. Equity funds continue to dominate the sector, but with recent growth into sustainable bond funds as the green bond market continues to expand. In terms of performance, sustainable funds lost 0.7% of their value in Q1 2025, faring better than the wider market (1.4% decline for the Morningstar Global Market index). Source: FT "Making sense of a rough quarter for ESG funds", 28 April 2025

[10] Savings and investments union - European Commission

seen as a complex and costly regime[11]. There have been calls for significantly simplifying and reducing the administrative burdens linked to the rules[12]. The SFDR review has therefore been included among the simplification initiatives of the European Commission in the Mission Letter to the Commissioner for Financial Services and the Savings and Investments Union[13] and in the 2025 Commission Work Programme[14].

1.2. Legal context

The SFDR is supplemented by Commission Delegated Regulation (EU) 2022/2018[15], published in April 2022 and amended in February 2023, with regulatory technical standards specifying key elements of the disclosure regime, notably in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.

It should also be noted that the SFDR interacts with ESMA's Guidelines on funds' names using ESG or sustainability-related terms[16]. The guidelines stem from the strong demand in recent years for investment funds that incorporate ESG factors and the competitive market pressures for asset managers to include terminology in their funds' names to attract investors which caused concern in ESMA over heightened greenwashing risks: i.e. that funds would be named as green or socially sustainable, while commensurate sustainability standards are not met.

Further, the SFDR interacts with the other pieces of legislation of the sustainable finance framework, including the EU Taxonomy[17], EU Benchmark Regulation[18], Corporate Sustainability Reporting Directive (CSRD)[19], the Corporate Sustainability Due Diligence Directive (CSDDD)[20],

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[11] A comprehensive assessment of the framework to assess potential shortcomings, focusing on legal certainty, useability of the regulation and its ability to play its part in tackling greenwashing was announced in December 2022. Two public consultations (targeted and open) ensued, running from September to December 2023. The European Supervisory Authorities (ESAs) published a joint opinion on the assessment of the SFDR in June 2024, addressing recommendations to the Commission. The Platform for Sustainable Finance provided two opinions in December 2023 and December 2024 on key issues to address and recommending setting up categories for financial products. Full details are provided in Annex II.

[12] This includes calls expressed by Member States e.g. in the 11 March 2024 Statement of the Eurogroup on the future of the capital markets union to improve usability, enhance clarity and reduce burdens in the EU sustainable finance framework, as well as the July 2024 study prepared for the ECON committee of the European Parliament.

[13] ac06a896-2645-4857-9958-467d2ce6f221_en

[14] Commission work programme 2025 - European Commission

[15] Commission Delegated Regulation (EU) 2022/1288

[16] ESMA34-1592494965-657 Guidelines on funds names using ESG or sustainability related terms. The guidelines reflected feedback to a consultation launched in November 2022 and were published in August 2024 to address greenwashing risk stemming from ESG- or sustainability-related terms used in investment fund names. They became applicable in November 2024 for new funds. For funds existing before this date, there is a transition period extending until 21 May 2025. The criteria of the guidelines are detailed in Annex 6.

[17] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

[18] Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014

[19] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

[20] Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859 (to apply from July 2028)

as well as relevant parts of the Markets in Financial Instruments Directive (MiFID II)[21] and Insurance Distribution Directive (IDD)[22] and links with the Shareholder Rights Directive (SRD)[23]. Together, they help support companies and the financial sector in directing private funding into sustainable investment projects and technologies. In particular, reporting obligations for FMPs under the current SFDR largely depend on the reporting obligations for companies under the CSRD and the Taxonomy Regulation. Therefore, the review of the SFDR will duly take into consideration the changes introduced by the proposed 'Omnibus' simplifications regarding sustainability information from companies[24]. Annex 6 describes in detail the interactions between the SFDR and the rest of the framework and highlights the special considerations regarding these interactions for the review.

2. PROBLEM DEFINITION

The SFDR sets a series of **entity level disclosure requirements** for financial market participants and financial advisers. They must disclose how they integrate sustainability risks into their investment decision-making processes (Article 3) and remuneration policies (Article 5). Large firms (more than 500 employees) must also disclose how they consider the principal adverse impacts of their investment decisions on sustainability factors, while others are subject to a comply or explain approach (Article 4).

The SFDR also sets a series of **product level disclosure requirements.** All financial products in scope[25] must disclose whether and how they consider sustainability risks (Article 6). Financial products promoting environmental or social characteristics (Article 8) or those with a sustainable investment objective (Article 9) must provide detailed sustainability-related disclosures in their pre-contractual and periodic reporting (Article 10) as well as on their website (Article 11).

The SFDR also provides a definition for the **concept of 'sustainable investment' (SI),** which underpins the Article 9 disclosures (and the Article 8 disclosures to a lesser extent). It is defined as an economic activity that **contributes** to an environmental or social objective, provided that such investments **do not significantly harm (DNSH)** any of those objectives and that the investee companies follow **good governance practices**. Importantly, the DNSH is based on the 'consideration' of a number of principal adverse impact indicators (PAIs) provided in Annex I of the delegated regulation.

The assessment carried out for the review of the underlying drivers behind the problems associated with the SFDR is explained in detail in Annex 11 (Evaluation). On this basis, **four regulatory problem drivers** were identified:

First, the Sustainable Finance Disclosure Regulation (SFDR) has faced widespread criticism for being unclear, complex, and difficult to implement, particularly regarding sustainability-related

[21] Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms

[22] Commission Delegated Regulation (EU) 2021/1257 of 21 April 2021 amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products

[23] Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies, as amended in 2017, notably Chapter Ib

[24] Commission proposes to cut red tape and simplify business environment - European Commission The SFDR will also interact with the Directive Corporate Sustainability Due Diligence (CSDDD) (Directive (EU) 2024/1760), which will start to apply as from July 2028, with amendments also to be introduced by the Omnibus simplifications.

[25] The scope of SFDR includes funds, insurance and pension products.

concepts and disclosure requirements. A key issue is the definition of "sustainable investment," which includes complex criteria and lacks clarity, especially in relation to the "do no significant harm" principle. Uncertainty also surrounds what constitutes the "promotion" of sustainability characteristics and how to apply entity- and product-level disclosures on principal adverse impacts. These challenges create ambiguity for financial market participants (FMPs), who must navigate unclear requirements and undefined terms. Additionally, the disclosure obligations are often lengthy, overly technical, and lack comparability, reducing their value for end-investors and undermining efforts to combat greenwashing.

Second, another significant problem stems from legal misalignments between the SFDR and other EU sustainable finance legislation, such as the Corporate Sustainability Reporting Directive (CSRD), the EU Taxonomy, and MiFID/IDD. These frameworks are meant to work together, but inconsistencies in legal definitions and technical requirements create confusion and hinder legal certainty. Notable discrepancies exist in how sustainability is defined across the SFDR, the Taxonomy Regulation, and the EU Climate Benchmarks, leading to fragmentation and implementation difficulties.

Third, the lack of reliable and comprehensive ESG data further hampers effective disclosures. FMPs and financial advisors rely on sustainability information from issuers, but such data is often incomplete or unavailable. This data gap results partly from inconsistencies across the legislative frameworks and from limited ESG disclosure obligations for assets not covered by EU rules, especially those located outside the EU.

Finally, the SFDR's disclosures —Articles 6, 8, and 9—are frequently misused as de facto labels by FMPs, investors, and distributors, despite the regulation not being designed as a labelling framework and lacking harmonised standards. This leads to confusion and inconsistency in their use and interpretation.

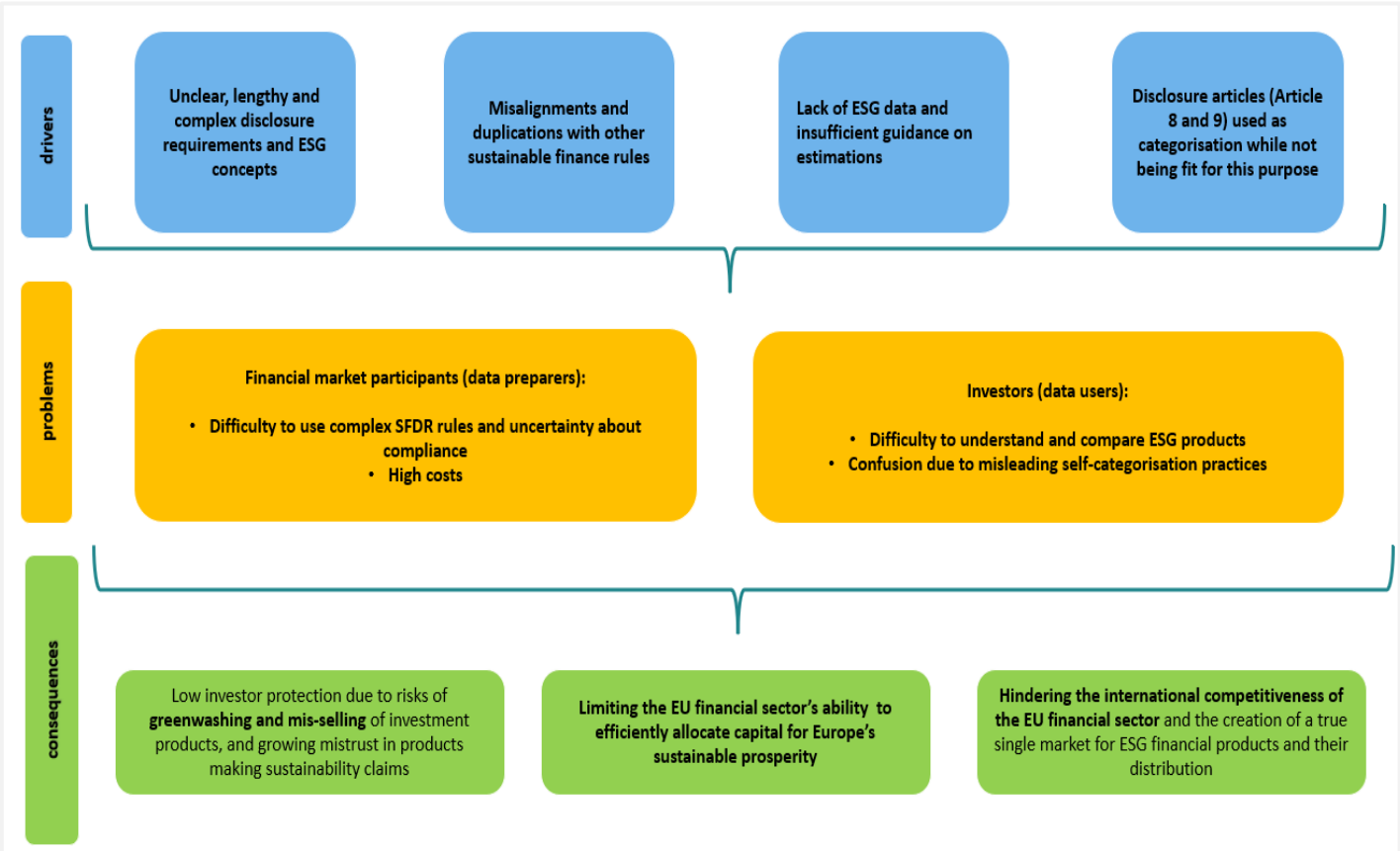
As summarised in the conclusion of Annex 11, there are a number of root causes for these problem drivers, for a framework which has been in application for only a relatively short period of time, and which inform the lessons learned for the review. Different dates of application for the Level 1 and Level 2 implementing measures of the SFDR[26] created uncertainty around the key requirements and concepts of the SFDR from the outset[27]. Challenges in accessing ESG data needed to comply with the new requirements were present from the beginning, exacerbated by the way the SFDR began to apply before other parts of the sustainable finance framework, namely the CSRD and EU Taxonomy, which were intended to increasingly inform product disclosures under the SFDR. Throughout, it also became increasingly evident that investors were not well served by the new, lengthy and complicated disclosures and rules, something which contributed to markets adopting the main disclosure Articles 6, 8 and 9 as a short-hand, misleading technique to convey a high-level sense of diverse products' key features[28].

[26] March 2021 and January 2023, respectively

[27] Extensive implementation guidance from the European Supervisory Authorities (ESAs) and the Commission was needed to address the underlying complexity of the concepts, and entailed some adjustments in the composition, naming and disclosures of various financial products, adding to the perceived implementation burden.

[28] Additional national rules in place in some Member States to address perceived shortcomings in the framework also added further complexity and fragmented the single market.

Box 1: problem tree



2.1. What are the problems?

Against this background, it is useful to make a distinction between problems which have resulted for preparers of the SFDR disclosures (i.e. financial market participants) on the one hand, and users of the SFDR disclosures (end-investors and distributors) on the other.

Problems for FMPs, from a preparer perspective: FMPs are facing difficulties in coping with the lengthy and complex disclosure requirements detailed in the Level 2 Regulation, and in navigating the uncertainty surrounding key sustainability-related obligations and concepts. These lead to high undue burdens and costs which can negatively affect FMPs' ability and willingness to develop ESG products[29] (compared to the absence of such requirements for non-ESG products).

Problems for investors and distributors, from a user perspective: investors and distributors cannot easily understand or compare ESG claims made by preparers of financial products as per the above, creating misinterpretation and misrepresentation risks, which are being exacerbated by the misuse of the disclosure regime as a de facto labelling system despite the lack of common criteria that could be fit for this purpose.

[29] The terms 'ESG products' and 'sustainability-linked products' under the SFDR are used interchangeably in this impact assessment

2.1.1. Specific problems from a preparer perspective

FMPs are struggling to cope with the lengthy and complex disclosure requirements and face uncertainty about SFDR compliance.

First, FMPs are facing difficulties in accessing the necessary data from underlying investments[30]. They often struggle to collect, measure or quantify certain indicators to comply with their reporting obligations (described in section 2.2.). 98% of FMPs who responded to the public consultation (176 out of 180) stated facing difficulties in obtaining good-quality data[31].

This is partly due to misalignments in scope between the SFDR and the other sustainable finance rules, and the fact that FMPs invest a large portion of their portfolio in assets that are not subject to EU legislation. As explained in the evaluation, Annex 11 (and Annex 6 on the different pieces of the sustainable finance framework), CSRD and EU Taxonomy Regulation disclosures were supposed to feed into the SFDR reporting requirements (i.e. ensuring that FMPs are receiving high quality and publicly available ESG data from their underlying investments). However, the scope of assets included in FMPs' portfolios is much larger than the respective scopes of the CSRD and the EU Taxonomy[32]. As a result, FMPs are not getting public information for certain EU assets (e.g. small non listed companies) and for their investments outside the EU.

To illustrate this point, between 30% and 50% of the average holdings of EU asset managers consist of entities not subject to CSRD reporting requirements (and therefore do not publish Taxonomy or CSRD related sustainability data)[33]. For example, the Platform for Sustainable Finance (PSF) highlights the lack of Taxonomy reporting outside of the European Union[34] and shows that PAI data is not universally available, despite several indicators. The evidence showed in the evaluation, Annex 11, boxes 12 and 13 shows that companies in the sample (12,000 issuers) were largely able to report data for over half of the mandatory PAIs. However, no single issuer reported data across all indicators. In addition, the evidence shows that the data availability for mandatory PAIs varies widely depending on the indicators and on the type of companies. For example, the SFDR mandatory environmental PAI coverage for small and medium EU companies is close to 0%, and the one of large EU companies is about 30 to 40%. Further, some indicators are being reported by less than 10% of issuers, such as the PAI on biodiversity, water, violations of the UNGC principles ad OECD Guidelines for SMEs, and gender pay gap.

As a result, FMPs often source the missing data either internally or commercially from third party providers[35]. The over-reliance on the use of estimates, coupled with the lack of guidance on how to produce such estimates and the lack of regulatory framework on third-party providers of such estimates, results in additional operational, regulatory and reputational risk for FMPs.

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[30] Associated problem drivers: (1) misalignments with other sustainable finance rules; (2) lack of ESG data and insufficient guidance on estimations

[31] European Commission, Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024

[32] Current scope and timing for reporting under the CSRD and the EU Taxonomy (for financial year 2024): large EU undertakings within the meaning of Article 3(4) of Directive 2013/34/EU which are public-interest entities (listed companies, credit institutions, insurance undertakings, others designated as public-interest entities by Member States) exceeding on their balance sheet dates the average number of 500 employees during the financial year.

[33] ESMA report on Trends, Risks and Vulnerabilities (TRV), 2023

[34] Platform for Sustainable, Briefing on EC targeted consultation regarding SFDR implementation, Annex A p.50, December 2023. Only 72 companies outside of the EU report data, including 43 in the US and Canada, 5 in Latin America and Caribbean, 5 in Asia/Pacific, and 2 in Africa/Middle East.

[35] EFAMA responses to EC targeted consultation on the implementation of the SFDR, 20 December 2023

In addition, FMPs are facing difficulties in applying the complex and sometimes mis-aligned sustainability-related concepts underlying the disclosure requirements[36]. The bulk of the complexities (as described in the evaluation annex 11 section 3.1) comes from the multiple layers of the sustainability assessment introduced by the definition of sustainable investment (Article 2(17) SFDR) as well as several misalignments between the SFDR concepts and sustainability-related concepts defined under other pieces of the sustainable finance framework (e.g. the EU Taxonomy and the EU Climate Benchmarks)[37].

As a result, FMPs pointed to several operational difficulties when applying certain SFDR concepts. For example, 80% of FMPs that responded to the public consultation stated facing uncertainty and methodological challenges with the requirement to 'take into account of' the principal adverse impact (PAI) indicators established in the Level 2 Regulation at entity level for the 'do no significant harm'(DNSH) test at product level[38]. Stakeholders also flagged difficulties when applying the Taxonomy-related concepts or the EU Climate Benchmark due to misalignments and legal uncertainties regarding the status of investments in taxonomy aligned economic activities and of products tracking EU climate benchmarks under the SFDR.

The problems mentioned have been notably acute for FMPs active in the **pension and insurance sectors.** Pension products, schemes and insurance-based investment products are covered the SFDR disclosures, yet some of the main assets they invest in (i.e. including sovereign debt), maintained for regulatory and diversification purposes, cannot be easily assessed against specific metrics in the SFDR and broader ESG framework (i.e. principal adverse impacts, taxonomy-alignment, etc). This, coupled with data availability issues, has led to difficulties for them to align their portfolios with the defined sustainability concepts (i.e. taxonomy-alignment or sustainable investment), hindering these FMPs from providing an accurate picture of their ESG profile[39].

FMPs have also reported barriers to implement strategies linked to transition finance due to the misalignments between the underlying elements of the SFDR sustainable investment definition and the features of transitional investments (more details in the evaluation annex 11).

Finally, FMPs are facing uncertainty about SFDR compliance due to the lack of clarity surrounding key sustainability-related concepts and their interactions[40]. As noted in the evaluation, Annex 11, different interpretations of the regulatory requirements are possible and have led FMPs to adopt different approaches. This is particularly the case for the calculation of sustainable investment exposure, which led to diverging approaches within the market and yielded significantly different outcomes/results (see **box 9, 10 and 11 in annex 11** illustrative examples and explanation).

The ambiguity of the legal text poses difficulties for **a uniform interpretation and implementation of the law.** While a certain level of flexibility is desirable and necessary for product innovation and to accommodate different ESG strategies and assets, the important differences in FMPs' implementation approaches have raised **doubts concerning the regulatory**

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[36] Associate problem drivers: (1) unclear, lengthy and complex disclosure requirements and ESG concepts ; (2) misalignments with other sustainable finance rules.

[37] The fact that different parts of the EU sustainable finance framework were developed and entered into application at different times, spanning 2018-2025 through a combination of Level 1 and Level 2 texts (and Level 3 guidance/Q&As), is a contributing factor to the complexity (see also section 3.1 of Annex 9).

[38] European Commission, Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024

[39] Annex 6 gives further background on the challenges for pensions and insurance providers

[40] Associated problem drivers : (1) unclear requirements and ESG concepts ; (2) misalignments with other sustainable finance rules ; (3) disclosure articles used as categorisation while not being fit for this purpose.

expectations under the SFDR. In addition, the lack of transparency on the approaches taken and underlying methodologies has created **concerns about potential misinterpretation** for both investors and distributors/advisers. (see evaluation, Annex 11)

The ESAs and Commission have provided extensive guidance in the shape of Q&As to facilitate common interpretations and practical application[41]. However, this has not prevented some national competent authorities (NCAs) from assuming **diverging national supervisory expectations** (e.g. what they consider as an acceptable approach to 'sustainable investment') **and the emergence of additional national requirements** (e.g. minimum criteria for communicating on ESG features and ESG national labels). A summary of the different national rules and labels is provided in **Annex 9**.

As a result, most respondents of the public consultations confirmed that these limitations (i.e. lack of clarity and diverging national supervisory expectations and rules) are currently creating high levels of legal uncertainty (79%, 233 out of 296)[42] and reputation risks for FMPs and financial advisers (80%, 237 out of 297)[43].

As a result, FMPs are facing excessive compliance costs and burdens

The complexities of the SFDR concepts and the length of the disclosure obligations are creating considerable burdens on FMPs. The implementation has been reported as very costly, time consuming, and the resources needed have been flagged as disproportionate.

In addition, the lack of clarity of the requirements and the inconsistencies, as well as some overlaps[44] with the rest of the sustainable finance framework is generating additional undue costs and efforts for FMPs[45]. National gold plating measures and diverging national expectations also translate into additional burdens, especially for FMPs marketing products in different member states (need to meet different regulatory expectations).

Finally, the lack of availability/comparability of ESG information from underlying investments on a geographical/jurisdictional basis links with increases in search costs for investors (see next section, thereby undermining their ability to scale their investment strategies internationally.

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[41] Consolidated Q&As on the SFDR - JC 2023 18 - Consolidated JC SFDR QAs

[42] European Commission, Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024

[43] European Commission, Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024

[44] Notably, FMPs with more than 500 employees, totalling around 400 entities, are subject both to mandatory PAI disclosures under Article 4(3) SFDR and disclosures under the CSRD according to ESRS (Source: ESAs report on PAI disclosures 2024). In the consultation, while many FMPs and financial advisers welcomed the alignment between the PAI indicators of the SFDR and ESRS, when asked if the SFDR disclosures are consistent with the CSRD requirements, more respondents disagreed (47%, 134 out of 285) than agreed (15%, 42 out of 285). A large majority of respondents totally or mostly agreed (76%, 216 out of 284) that there is room to streamline entity-level disclosure requirements under the SFDR and the CSRD. European Commission, Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024

[45] For example, the European Fund and Asset Management Association (EFAMA) states that *'some unclear aspects of the SFDR have forced our members to (…) seek expensive external legal advice, further increasing the implementation costs.'* EFAMA responses to EC targeted consultation on the implementation of the SFDR, 20 December 2023

2.1.2. Specific problems from a user perspective (investors and distributors)

Investors (and distributors) cannot easily understand or compare the ESG features and claims of financial products

First, the length and complexity of the SFDR disclosures have not empowered end-investors (and distributors) to understand and compare ESG features[46]. The information provided to investors at the level of product is '*not easily comprehensible and demands a high level of familiarity with environmental metrics, performance data and the regulatory framework*'[47]. The SFDR concepts (e.g. *'taxonomy-alignment', 'proportion of sustainable investment', 'consideration of principal adverse impact'*) contrast starkly with the way retail investors express their sustainability preferences, and many investors do not possess the necessary understanding to interpret such information. This affects their ability to assess the sustainability performance of financial products. Findings from the majority of the EU consumer studies conducted in recent years confirm these statements.

Consumers' associations also argue that *'pre-disclosure templates are unnecessarily long and can be very confusing and time consuming for retail investors*[48]*'* and *'and not designed in a way that can be easily understood*[49]*'*. Certain studies also argue that such '*overflow of complex disclosures form a barrier to understanding the ESG strategy employed in their investments*[50]*'*. The findings are summarised in annex 10.

This assessment is reflected in the responses to the public consultation, with 84% (249 out of 296) of respondents stating that the disclosures required by the SFDR are not sufficiently useful to investors[51]. A majority of stakeholders also sees limited usefulness in the SFDR disclosures provided at the level of the entities to end-investors, with only 31% (86 out of 281) of respondents to the public consultation considering them useful. According to EFAMA, retail investors typically focus on disclosures in relation to specific financial products rather than the companies managing these products. Consequently, *'the demand for entity-level disclosures is relatively low, as (investors') primary concern lies with the details of the individual investment products themselves'*[52].

In addition, the disclosures made under the SFDR often lack comparability[53]. Different interpretations of the regulation have led FMPs to adopt different approaches when applying key SFDR concepts, especially the calculation of sustainable investment exposure (see the illustrative example in the evaluation annex 11 box 11). As a result, products with similar mandates and portfolios will report divergent exposures to sustainable investments depending on the methodology chosen. The lack of transparency regarding the approach taken and the underlying methodologies is making it impossible for end-investors to compare competing products. The discretion in how to consider PAIs also does not ensure comparability, while reporting on products' Taxonomy-alignment is limited and only gives a partial account of their overall footprint. The reasons

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[46] Associated problem driver: unclear, lengthy and complex disclosure requirements and ESG concepts
[47] Platform for Sustainable, Briefing on EC targeted consultation regarding SFDR implementation, December 2023
[48] FSUG response to SFDR consultation, December 2023
[49] Finance Watch response to SFDR consultation, December 2023
[50] EFAMA responses to EC targeted consultation on the implementation of the SFDR, 20 December 2023
[51] European Commission, Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024
[52] EFAMA responses to EC targeted consultation on the implementation of the SFDR, 20 December 2023
[53] Associated problem drivers : (1) unclear, lengthy and complex disclosure requirements and ESG concepts ; (2) misalignments and duplications with other sustainable finance rules; (3) lack of ESG data and insufficient guidance on estimations.

underlying the lack of comparability are further described in the evaluation, Annex 11 under section 3.1.1.

Distributors are facing similar difficulties when having to interpret SFDR disclosures to implement the sustainability preferences rules under MiFID and IDD. Distributors have to provide clients that expressed sustainability preferences with suitable investments that reflect (among others) such preferences. In doing so, distributors have to assess, for each product they distribute, to what target market a given product will be suitable. Their assessments rely, among others, on information disclosed by product manufacturers under the SFDR. These disclosures do not enable them to develop sufficient knowledge of the sustainability profile of the products they distribute, leading to reputational risks and operational costs (to implement additional due diligence processes and checks).

An additional problem for distributors (and ultimately for retail investors) is the lack of sustainability disclosure requirements comparable to SFDR disclosures for several financial instruments as defined under MiFID and PRIIPs that may be distributed to clients with sustainability preferences, such as shares, bonds, and structured notes. This is due to differences in objectives and scope between the SFDR and MiFID (and PRIIP), for instance disclosure obligations under MiFID cover investor protection more generally than those under SFDR or PRIIPs, and due to differences in type of financial product coverage[54]. Stakeholders have flagged that this issue is particularly problematic for structured notes which currently fall outside the scope of the SFDR despite having common features with investment funds, thereby giving rise to a form of regulatory arbitrage.

An additional obstacle to investors' understanding is that ESG claims in product names and marketing materials do not always accurately reflect the products' actual ESG objectives or strategies. In fact, the SFDR does not include detailed rules on the extent to which financial products can make references to ESG elements in their names or marketing documentations. These claims are only covered by the high-level requirements under the SFDR Article 13 (FMPs must '*ensure that their marketing documentations do not contradict the information disclosures'*) and MiFID II and IDD (which also provide that all information, including marketing communications shall be fair, clear, and not misleading).

The lack of minimum ESG transparency or performance requirements for making such claims has led NCAs to adopt different national approaches, adding complexity to the different rules and different levels of safeguards against greenwashing. The ESMA guidelines[55] partly addresses this regulatory gap by introducing minimum criteria for funds using certain ESG terms in their names. The guidelines aim to bring clarity for investors amid FMPs' myriad sustainability claims[56]. However, the guidelines do not cover the entirety of financial products in scope of the SFDR and of the MiFID/IDD sustainability preferences rules. For example, insurance and pension products are not currently subject to similar rules.

[54] Shares, bonds, derivatives and structured notes are covered by MiFID II but not the SFDR. More information in annex 6.
[55] ESMA guidelines. More details on the guidelines in section 2.2.2.
[56] As highlighted in ESMA analysis, more and more funds include ESG terms in their names in response to high and consistent investors' appetite for funds with ESG-related terms in their names. Morningstar has identified close to 4300 mutual funds and exchange-traded funds available for sale in the EU that use ESG or sustainability-related names.

End-investors are also being misled by the self-categorisation practices[57]

As described in evaluation annex 11, the SFDR is 'de facto' being used as a categorisation/labelling system where products disclosing under Article 8 and Article 9 have been commonly referred to as 'light green' and 'dark green' products, respectively.

The wide, but unintended, use of SFDR disclosures as product labels by the market gives rise to some concerns. First, the Article 8 category based on the "promotion of environmental or social characteristics" is very broad and lacks minimum quality conditions to serve as a reliable categorisation. Second, the key concepts (e.g. contribution to an environmental or social objective or the DNSH for "sustainable investment") underpinning Article 9 lack clear criteria leading to divergent interpretations and lack of comparability, linked to the problems above.

The disclosure regimes under Articles 8 and 9 do not have any harmonised criteria that could allow investors (and distributors) to compare the relative ESG performance. This had led to confusion, especially among retail investors, who often assume that products disclosing under Article 9 are fully sustainable and that products disclosing under Article 8 strongly integrate ESG factors, even though this is not necessarily the case[58].

2.1.3. Consequences

First, the limitations related to the SFDR concepts and disclosures lead to risks of greenwashing and mis-selling of investment products. The low levels of comparability and reliability of the disclosures, the lack of alignment between products' ESG claims in names and marketing documentations, and the misuse of the SFDR as a categorisation system give rise to risks for investor protection linked to misrepresentation and misinterpretation. This is further impacted by differing supervisory expectations and lack of criteria underlying key sustainability concepts and obligations. These findings are supported by the responses to the public consultations, with 62% (181 out of 292) of respondents claiming that the SFDR has not effectively strengthened the protection of end investors and 81% (237 out of 297) identifying important risks of greenwashing and mis-selling[59].

Second, these problems are limiting the EU financial sector's ability to efficiently allocate capital for Europe's sustainable prosperity. The lack of clarity and the complexity of the SFDR requirements are currently limiting FMPs' ability to develop ESG products across the single market without incurring undue costs and burdens. Solutions for investors to effectively channel investments towards projects that advance environmental, social and governance objectives are thus suboptimal or lacking[60], frustrating the continuing demand on their part for ESG investments. In addition, the fact that the SFDR does not define and adequately integrate the concept of transition finance is hindering FMPs from supporting companies while they pivot towards sustainable practices.

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[57] Associated problem driver: disclosure articles used a categorisation while not being fit for this purpose.

[58] 83% of respondents in the consultation (245 out of 296) agreed that the SFDR is currently not being used solely as a disclosure framework as intended but is also being used as a labelling and marketing tool. European Commission, Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024

[59] European Commission, Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024

[60] As observed for example in the low share of products offering significant shares of sustainable investments, including towards Taxonomy-aligned activities.

Finally, the current SFDR rules are impacting the international competitiveness of the EU financial sector. Undue costs and burdens associated with the implementation of the complex SFDR disclosure regime risk putting EU market actors at a disadvantage compared to FMPs operating in jurisdictions with lighter requirements. In addition, the emergence of various national requirements in the EU pose barriers to cross-border distribution of financial products and prevent the creating of a true single market for ESG financial products, frustrating the potential of the single market to effectively channel savings towards Europe's sustainable prosperity.

2.2. How likely is the problem to persist?

Without EU-level action, it is highly unlikely that the problems identified for FMPs (preparers) and investors and distributors (users) would be tackled in an effective, efficient and coherent way. Difficulties and undue costs would persist for both groups in navigating the complexities and uncertainties linked to the implementation of the SFDR, amid the need to also observe differing relevant national level requirements as well as the ESMA guidelines for funds.

3. WHY SHOULD THE EU ACT?

3.1. Legal basis

The legal basis is the same as for the existing Regulation, namely Article 114 of the Treaty on the Functioning of the European Union, with the objective of establishing and ensuring the functioning of the internal market, in this case for the sale and distribution of financial products with sustainability-related features.

3.2. Subsidiarity: Necessity of EU action

The need for a coherent common framework for sustainability-related disclosures for financial products across the EU was established as part of the original SFDR. The objectives remain fully valid, and enjoy broad stakeholder support[61]. Without effective Union-level action, the problems identified would persist. That is, financial market participants, financial advisers and distributors, as well as investors would continue to face undue complexity in the application of the rules. Excessively lengthy disclosure rules and templates involving sustainability characteristics in the business practices of financial market participants, as well as in the financial products they offer to investors, would remain in place. A high degree of confusion, uncertainty and a lack of comparability would continue to mark the availability of financial products with sustainability-linked features, negatively impacting their credibility and uptake.

To overcome these problems and boost the effectiveness and efficiency of the single market for sustainable finance products, the necessary simplification and adjustment of the existing SFDR framework can only be done in a coherent and effective way at EU level. Addressing the problems and consequences arising from the lack of clarity and comparability in the characteristics of sustainability-linked financial products as well as from the undue complexities posed for the operations of financial market participants cannot be sufficiently achieved by Member States acting independently. To be sure, actions by Member States to address (some of) the identified problems could help act on some of the problem drivers e.g. by overcoming a lack of clarity as regards sustainability-features of financial products through the introduction of, or continued reliance on, sustainability labels at national level. However, although Member States could individually take such action to strengthen the reliability and comparability of sustainability-linked financial products

[61] 89% of consultation-respondents consider that the objective to strengthen transparency through sustainability-related disclosures in the financial services sector is still fully relevant.

in their national markets, there is a high risk that any measures of this kind would differ between them. This could give rise to further diverging levels of transparency between national markets, growing disparities in investor confidence in ESG products across Member States, risks of more barriers and challenges for cross-border market participants, and further limits to the comparability of products across the single market. Therefore, such actions could, in isolation and potentially conducted in an uncoordinated manner, further fragment the single market for sustainable finance products and fail to address the consequences identified in the previous section in an efficient way.

3.3. Subsidiarity: Added value of EU action

Action at EU level to tackle the identified problems would be conducive to a more harmonised, effective, efficient and coherent outcome across the single market, and in support of the broader strategic objectives of the Union. In contrast to sticking with the status quo and relying on national level actions together with requirements regarding the use of fund names pursuant to the ESMA guidelines, EU level policy measures to address the shortcomings in the current SFDR framework would act on the problem drivers in a comprehensive way. Requirements and disclosures could be simplified across the board, both for the benefit of financial market participants and investors, in a harmonised way throughout the Union. Common solutions to transparency-related challenges regarding access to ESG datapoints could be designed in a way which facilitates the business of financial market participants in an even way across the EU and protects investors, and tackles information asymmetries, equally regardless of which Member State they are located in. National disparities in available levels of information regarding the sustainability-linked features of financial products could thus be addressed to benefit investors more evenly and fairly across the EU, for instance helping overcome wide national differences today in the relative shares of products disclosing under Articles 8 and 9 of the SFDR[62].

Therefore, effective EU level action to tackle the problems identified in the previous section would be better to help scale up private sustainable finance across the Union. In turn, this could better serve the objective of mobilising funds toward the competitive opportunities in the green transition and other evolving strategic priorities in line with Union objectives. As such, it could ease the pressure off public funds, which are increasingly stretched in terms of competing and new emerging priorities, to finance and catalyse funds towards sustainability objectives. In short, EU level action would boost the proper functioning of the single market for sustainable finance and in addition contribute to improving transparency for investors across the Union to enable their participation in EU capital markets in general, in line with the objectives of the Savings and Investments Union[63].

4. OBJECTIVES: WHAT IS TO BE ACHIEVED?

In order to tackle the consequences identified in section 2, the initiative aims at pursuing two general objectives, in line with the political guidelines for the current Commission to deliver for Europe's sustainable prosperity and competitiveness and to unlock private financing and turbo-charge investment as part of deeper and more liquid capital markets[64]. These objectives in turn

[62] As an illustration, Article 8 and 9 together account for over 80% of funds e.g. in SE, NL, DK and FI, while they represent 0% in CY, EL, PL and LT (Source: DG FISMA calculations based on Morningstar data in Q2 2024)
[63] Savings and Investments Union
[64] https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648_en

support investment toward the following Sustainable Development Goals, namely those related to the climate and environment[65] and social progress[66].

To reach these general objectives, two specific objectives are identified in order to tackle the problems identified in section 2, and notably to help financial market participants and investors to overcome the complexity of the status quo. These in turn fully respect and support the EU Charter of Fundamental Rights.

4.1. General objectives

The first general objective of the initiative is to protect the integrity of the EU single market for sustainable finance by ensuring requirements which mitigate risks of greenwashing, and to better help investors seize opportunities in sustainability-linked financial products. The second general objective is to boost the competitiveness of Europe's financial sector by ensuring conditions which make business easier and help to deepen our single market for sustainability-linked financial products and thus to efficiently allocate capital for Europe's sustainable prosperity. Overall, the general objectives of the review are thus conceived to create conditions on both the demand-side and the supply-side to ensure a better use of the potential of the European single market for sustainable finance to contribute to funding the transition towards Europe's sustainable prosperity and competitiveness.

4.2. Specific objectives

To reach these objectives, and to tackle the shortcomings observed in the status quo, the measures of the review should pursue two specific objectives. The first specific objective is to simplify and reduce the sustainability-related administrative requirements of the framework for financial market participants, as well as to enhance the coherence of the framework for their operational needs. The second specific objective is to improve end-investors' ability to understand and compare sustainability-linked financial products. The specific objectives of the initiative thus tackle the main problems which have been identified both for financial market participants on the one hand, and for investors on the other, which inhibit their ability to, respectively, design financial products and deploy corresponding investments in an efficient and effective manner toward the EU's sustainability, competitiveness and other strategic policy goals.

5. WHAT ARE THE AVAILABILITY POLICY OPTIONS?

The available policy options for the review are assessed against the specific objectives identified above. They are analysed in terms of their relative merits in how well they can simplify and clarify the regulatory expectations under the SFDR while enhancing investor protection and improving their ability to understand the ESG features of financial products. The overarching goals of the policy options are to support the scale up of sustainable finance towards Europe's sustainability and competitiveness goals in the most effective and efficient fashion.

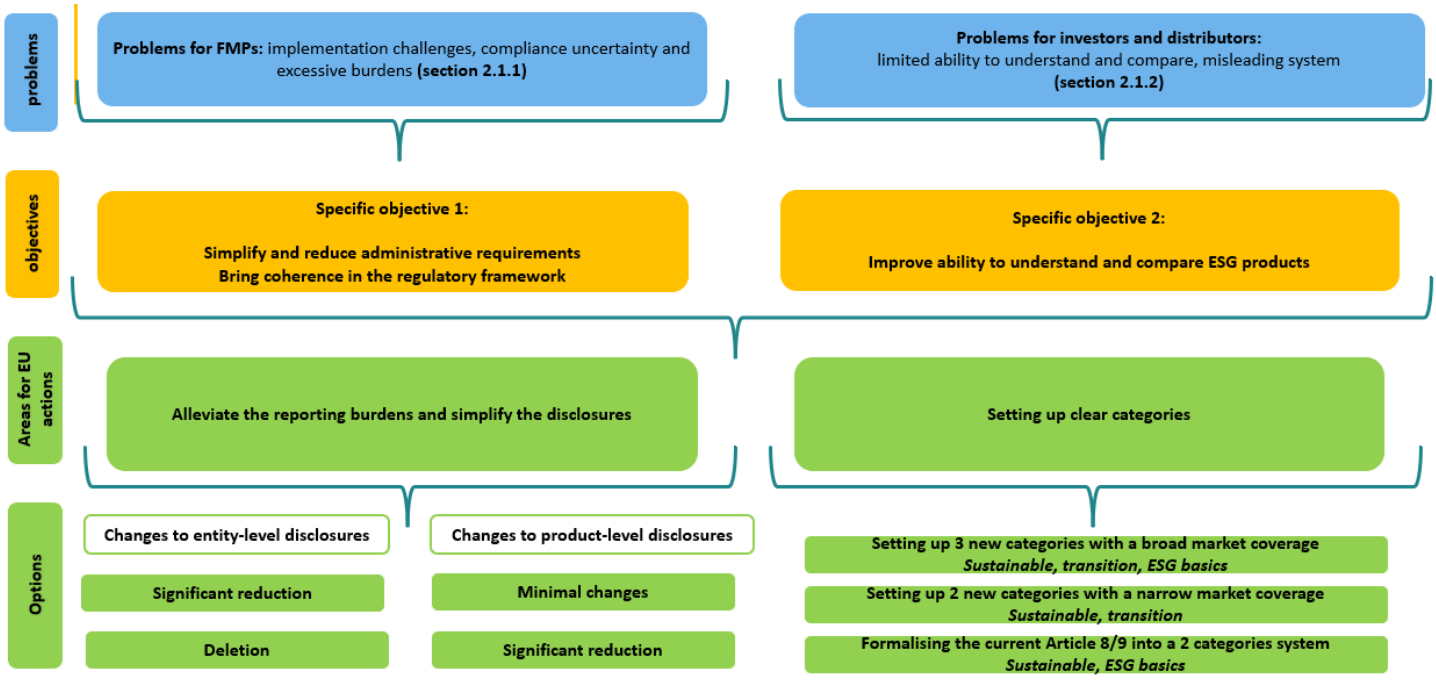
This section is structured as follows. Section 5.1 illustrates the baseline scenario of no change to the SFDR. Section 5.2 considers its repeal. Section 5.3 considers a first alternative area of action, namely options for alleviating the reporting burdens through changes to entity-level and product level disclosures. These changes include both a reduction of data points required as well as a simplification of the sustainability-concepts. Section 5.4 considers a second area of action, namely

[65] E.g. Goal 13 "Climate Action", goal 6 "Clean Water and Sanitation"; goal 7 "Affordable and Clean Energy"; goal 9 "Industry, Innovation and Infrastructure"
[66] E.g. Goal 3 "Good Health and Well-being"; 5 "Gender Equality"

setting up a clear product categorisation system to address the current misuse of the disclosure articles. Section 5.5 discusses some options discarded at an early stage.

The options in Sections 5.3 and 5.4 relate to one another as follows. The options under Section 5.3.1 to significantly reduce or delete entity level disclosures are distinct. They concern financial market participants' disclosures at entity-level, regarding their investment decisions and business practices. The options under Section 5.3.2 to make either minimal or more significant changes to sustainability-related product-level disclosures connect closely to the options in Section 5.4 regarding whether and how to set up a categorisation system for those products. The options under Section 5.3.1 could be pursued more in isolation (but coherent with the rest of the EU sustainable finance framework) while those in Sections 5.3.2 would be more difficult to pursue without considering those in Section 5.4. To illustrate, Box 2 shows how the options relate to the problems and specific objectives of previous Sections, while the text below under the options explains further how notably options in Sections 5.3.2 and 5.4 should be pursued more closely together, for a coherent outcome which achieves the objectives effectively and efficiently.

Box 2: how the policy options in Sections 5.3 and 5.4 interact with the problems of the current SFDR and the objectives for the review



The policy options below focus primarily on the necessary changes to the Level 1 SFDR text. These would need to be complemented by corresponding changes or replacements of the Level 2 Regulation. The policy options are explored to establish all essential features of the disclosures and categories in the Level 1 text, framing the supplementary rules in the Level 2 Regulation (contrary to the current SFDR, which allowed for the elaboration of complex and lengthy level 2 rules, leading to increased complexity and burdens).

Specific considerations for the formulation of policy options arising from the Omnibus proposal[67], the ESMA fund name guidelines and the principle of proportionality

One of the key considerations is to foster coherence between the SFDR and the rest of the sustainable finance framework, and in particular with the changes entailed by the Omnibus proposals in terms of sustainability disclosures applicable to corporates. The policy options for the SFDR review need to be coherent with this new context. Prior to the Omnibus, disclosures from corporates/investees were set to expand over time and provide a wider range of the granular data needed by financial market participants for their own disclosures. Post-Omnibus[68], the policy options need to take account of the future scope of the disclosures for corporates, which will not improve FMPs' ability to access ESG data for their underlying investments. Therefore, the future system should reflect the fact that granular sustainability-related information will not be more readily available directly from all investees. Here, it needs to be carefully considered whether the new context under the Omnibus would favour repealing the SFDR and leaving the organisation of information on ESG-features of financial products to the market, or whether other options to review the SFDR would be more effective, efficient and coherent to deliver on the objectives[69].

Second, in this context, due consideration should also be given to recognising and building upon current market practices. While not a standalone objective, a sufficient degree of continuity/stability with appropriate criteria in the categorisation of products that are already being applied by the markets, namely reflecting the ESMA fund name guidelines[70], is considered advisable. These have become a broadly accepted and useful source of clarity for FMPs and investors. Duly reflecting them aims to avoid a 're-categorisation' wave which could be disruptive to the offer of products to investors. It could also be unduly costly for FMPs, especially given evolving data constraints, and be at odds with the overall objective of simplification and burden reduction. Rather, where existing categorisation practices are considered to help support the objectives in Section 4, this should be reflected in the assessment of the relative merits of the options.

Finally, and linked to this, following the principle of proportionality, the options should further seek to work with the grain of market practices and not go beyond what is necessary to reach the objectives, also taking into account other existing regulatory requirements regarding 'environmental' claims[71]. While there is no obligation in the current SFDR for FMPs to offer sustainability-linked products, the scope of its current disclosure requirements is not clearly delineated and as a result applies broadly to the market. As explained in section 2 and Annex 11 (evaluation), the scope of application of the SFDR Article 8 has been subject to different interpretations (from FMPs and supervisors), i.e. the triggers of the mandatory ESG disclosures are not clear and led to a very large scope of financial products falling under these obligations (for example investment funds disclosing under Article 8 accounted for about 51% of the total UCITS and AIF fund market at end of 2024[72]).

[67] Omnibus I - European Commission
[68] Estimated notably to result in a reduction in the number of undertakings in scope of the CSRD of about 80%
[69] Details on the links between the SFDR review and the Omnibus are presented in Annex 6, Section 5.
[70] ESMA guidelines were largely an attempt to bring clarity for investors amid FMPs' myriad sustainability-linked claims through the introduction of minimum criteria. They constitute the latest regulatory guidance, after notably a prior reclassification of Art. 9 funds in Q4 2022, having resulted in some relabelling and renaming of EU sustainable finance funds.
[71] Namely, changes introduced by Directive (EU) 2024/825 amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and through better information (see also Annex 6, section 3).
[72] EFAMA, Market Insights, April 2025

In this respect, the options should more clearly focus the obligations under SFDR to cater for FMPs which are committed to offering sustainability-linked financial products and for their clients which are interested in investing in them. That is, compared to the status quo, it should be ensured more clearly that the future policy framework constitutes a voluntary regime for FMPs and investors interested in sustainability-linked products. It would apply only in case of explicit decisions by FMPs to offer ESG-focused products and by investors to seek and select them. A key consideration would be that 'claims' by FMPs regarding how and the extent to which financial products invest in, contribute to, or integrate sustainability factors in their investment strategy, understood as any messaging stating or implying environmental or social benefits associated with investments in and by those financial products, would trigger the categorisation of products under the revised SFDR. Conversely, if products do not meet the criteria required by the voluntary categories, they should be restricted from using certain names or be marketed as sustainable or ESG focused.

5.1. What is the baseline from which options are assessed?

The baseline scenario assumes no changes are made to the SFDR and that the Omnibus proposals are adopted by co-legislators[73]. In this scenario, the problems and challenges identified in section 2 would continue. Namely, the complexity, burdens, confusion and suboptimal outcomes associated with the current rules, both in terms of disclosures and the misuse of Articles 8 and 9 as labels, would not be tackled. Questions from FMPs how to interpret and implement the rules would continue, adding extensively to the corpus of Level 3 guidance which they have to observe[74]. Certain duplications within the existing sustainable finance framework for financial market participants would remain in place, and new challenges arising for them from the Omnibus proposals would emerge. Rather than receiving increasingly granular data from investees as would have been the case prior to the Omnibus, FMPs would have to make do with less for their own disclosures[75], and from a smaller range of entities. In response to a perpetuated status quo, the likelihood of divergent national measures would increase, even more so in case national authorities were to adjust national regimes for financial market participants to reflect the evolving post-Omnibus landscape. Worsening fragmentation of the single market, contrary to the objectives of the Savings and Investments Union, would ensue. The ESMA guidelines could help mitigate this to an extent, continuing to apply to govern the use of ESG terms in fund names. However, tensions could emerge amid a growing disconnect between the simple rules introduced by the guidelines on the one hand, and the complexity of the underlying SFDR disclosures and concepts (e.g. 'sustainable investment', which is integrated in the guidelines) amid heightened post-Omnibus data availability challenges on the other.

5.2. Repeal of the SFDR

Given the emphasis on simplification of sustainability reporting under the Omnibus, a straightforward way to simplify and reduce the sustainability-related administrative requirements

[73] At the time of writing (until Q4 2025), while aspects of the Commission's proposals on the Omnibus had been adopted (namely the 'stop-the-clock' amendments to delay phasing-in the application of the CSRD and CSDDD for a range of entities), the remaining negotiations on the Omnibus between the co-legislators were still underway, but looked set to confirm the Commission's proposal for simplifications of the current framework, and even to go beyond in certain respects (see namely Council of the EU, Draft directive on certain corporate sustainability reporting and due diligence requirements, Council's negotiating mandate, June 2025, which puts forth a revenue threshold of EUR 450mn to descope more companies). While not yet fully finalised and agreed, it was thus assumed highly unlikely that co-legislators would reverse course toward a pre-Omnibus scenario.

[74] Dated 25 July 2024, the consolidated Q&As on the SFDR exceed 70 pages JC 2023 18 - Consolidated JC SFDR QAs

[75] The current ESRS includes over 50 datapoints to support the corresponding information provisions of financial market participants related to principal adverse impacts set out in the SFDR Level 2 (Commission Delegated Regulation (EU) 2022/1288)

for financial market participants would be to remove the rules to this effect under the SFDR altogether. If the SFDR were repealed, financial market participants would be relieved of the obligations to provide entity-level and product-level information regarding sustainability involving their practices and products. They would be free to provide this information according to parameters and templates of their choosing, based on demand from their investors, and subject to the (possible, continued) application of the ESMA fund name guidelines (which does not include reporting obligations) and other horizontal legal requirements[76]. However, for a complete answer to the problems identified in Section 2, this would need to be weighed against how well a repeal would help meet the other objectives outlined in Section 4 – e.g. to enhance the coherence of the sustainable finance framework for the operational needs of financial market participants, as well as to improve end-investors' ability to understand and compare sustainability-linked financial products and fight greenwashing. This is assessed at the start of Section 6.

5.3. Policy options for alleviating burdens and costs of reporting

The first set of alternative options looks at how best to alleviate the entity-level and product-level disclosure requirements applicable to FMPs in the current framework, which constitute one of the key problems identified in section 2.1.1. The options focus on the information and datapoints that are most needed from them by end-investors and on how to clarify and simplify the concepts underlying these disclosures. This involves amendments of the Level 1, to be complemented by corresponding Level 2 changes at a later stage. The approach to supervision would remain the same (i.e. in the hands of the national competent authorities).

The options for the disclosures in this Section are independent of those regarding categorisation in Section 5.4. However, the specific content of the product disclosures would be closely linked to the type of categories that would be created. In fact, disclosures would need to include an indication of the categories, and under some options they would also include transparency regarding the criteria.

5.3.1. Entity-level disclosures

The suggested changes focus on the disclosures of principal adverse impacts under Article 4 SFDR, which are those most acutely identified as a problem in section 2. Disclosures on sustainability risk and remuneration policy under Article 3 and 5[77] were not identified as considerable burdens. Disclosures under Article 4 SFDR are currently mandatory for FMPs with more than 500 employees, while smaller FMPs are subject to a comply or explain mechanism. In terms of coverage of entities, there are currently approximately 400 FMPs[78] reporting on a mandatory basis (i.e. more than 500 employees) and 1200[79] doing so on a voluntary basis (i.e. below 500 employees)[80].

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[76] Namely, changes introduced by Directive (EU) 2024/825 amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and through better information (see also Annex 6, section 3).

[77] PAI disclosures as per Article 4 constitute the bulk of entity-level disclosure requirements detailed in the Level 2 regulation and a major factor in the problems identified in section 2, whereas there are no further Level 2 specifications concerning Articles 3 and 5.

[78] Of which 71% are banks, 20% insurance companies, 8% are asset management firms and the rest pension funds and investment firms. Data from ESAs report on PAI disclosures 2024.

[79] Of which 40% are asset management firms, 21% insurance companies, 15% pension funds, 13% investment firms and 11% banks. Data from ESAs report on PAI disclosures 2024.

[80] While aggregated numbers on what this means in terms of the adverse impacts of investments by covered entities are not available, the ESAs provided information on their average adverse impact on key indicators: 26.59m tons for total GHG emissions (highest 540m), 18 000 tons for average GHG intensity of investee companies, and 7000 tons for carbon footprint.

Option 1.1: Significant reduction of entity-level disclosures

Under this option, the Commission would reduce the amount of sustainability KPIs to focus on the ones that are the most comparable, measurable and material. These would need to be built on what is understandable and important for investors (focus on retail investors)[81]; as well as on the current market practices[82] and the future corporate reporting standards under the CSRD[83]. Work from the Platform on Sustainable Finance (PSF)[84], the ESAs[85], and the responses to the public consultation can inform on the usability of the indicators to be retained. The frequency of reporting could also be reduced up to 3 years instead of every year.

In addition, a revised scope could target a meaningful scope of entities by focussing on the size of the FMPs' asset under management rather than the number of employees. Regardless of the revision of the scope, this option would involve the SFDR continuing to set entity-level disclosures for smaller FMPs that will be out of the scope of the revised CSRD, as per the Omnibus proposal.

Option 1.2: Deletion of entity-level disclosures

Under this option, the SFDR would solely focus on product disclosures while the CSRD would prescribe the entity-level disclosures for FMPs in its future revised scope[86]. Assuming the adoption of the Commission's Omnibus proposals, mandatory entity-level reporting would thus no longer apply to FMPs below 1000 employees.

In contrast to option 1.1, this option fully reflects the logic of the Omnibus proposal. The CSRD will determine future entity-level sustainability-linked reporting requirements in a comprehensive, cross-sectoral and coherent way, without exceptions and without scope for additional requirements under other regulatory pieces that would risk duplications or excessive complexity. FMPs outside the CSRD scope could voluntarily report entity-level information according to the ESRS or the future voluntary sustainability-related information standard to be adopted as a delegated act according to the Omnibus proposal, and based on the voluntary standard for SMEs (VSME) developed by EFRAG[87].

5.3.2. Product-level disclosures

Despite the clear need for simplification and streamlining of the current ESG disclosures for sustainable finance products, there is still a **clear demand for ESG information on investment**

[81] A comprehensive EU consumer testing exercise should be conducted to ensure the indicators that are to be retained can be understood and are deemed important by end-investors.

[82] Data from past disclosures by FMPs should be used to determine which KPIs are currently being disclosed, which can inform on their level of usability and ease of production. For example, the ESAs annual report on PAI disclosures under the SFDR shows that the KPI on total GHG emissions is being widely disclosed across FMPs.

[83] To reduce the data gaps and bring coherence between the disclosures from non-financial companies and financial companies.

[84] For example, the PSF acknowledges that certain indicators are only material for companies involved in specific economic activities, such as PAI 9 (hazardous and radioactive waste ratio), PAI 5 (non-renewable energy consumption and production, specifically for energy production), and PAI 8 (emissions to water), and might not be material and comparable across all companies

[85] The information needed might also be available under the annual joint ESAs reports on disclosures of principal adverse impacts under the SFDR. See here the 2024 version for a state of play of the reporting based on FY 2023. If the information available in these reports are not enough, a market study should be conducted to take stock of disclosures made under Article 4 SFDR.

[86] Together with the provisions of Chapter Ib of Directive 2007/36/EC (shareholder rights), as amended

[87] Omnibus proposal COM (2025)81 final; Commission presents voluntary sustainability reporting standard to ease burden on SMEs - European Commission

products[88] (summary of the existing consumer studies included in Annex 10). This trend was confirmed in the responses to the public consultations (described in Annex 2) which showed that 89% of respondents (272 out of 304) consider that the objective to strengthen transparency through sustainability-related disclosures for financial products is still relevant today. In addition, a Eurobarometer survey of October 2022 shows that more than six in ten Europeans find it important that their savings and investments do not find economic activities that have a negative impact on the planet. However, only 34% know whether their private savings and investments are invested into sustainable economic activities, and 29% receive information on the sustainability impact of financial products or services[89].

This shows the need for more user-friendly information for investors to make informed choices. The two options below therefore look at how to best ensure that investors receive the information that they need while limiting the burdens on data preparers.

The specific content of product disclosures is intrinsically linked to the choice made for the categorisation system (section 5.4). Accordingly, option 2.1 would cater more for categories that rely on the existing SFDR concepts while option 2.2 would better reflect categories relying on new criteria (which would be simpler than the existing concepts).

Option 2.1: Minimal changes to product-level disclosures

This option would retain the bulk of the disclosures set out in the SFDR level 2 delegated regulation in place.

The reporting templates would remain largely similar to how they are today, i.e. requiring transparency around a wide range of ESG related concepts in the current SFDR for all products in scope[90]. Depending on the choice made regarding categories, the specific content of the disclosures would only slightly vary. If categories were introduced, disclosures would need to include a reference to the category and an explanation of the criteria, but all categorised products would continue to disclose against the wide range of ESG concepts, independently of the category under which they fall.

Option 2.2: Significantly reduce product-level disclosures

This option would imply a significant change from the current approach and would result in much shorter and simpler consumer-facing disclosures (Level 2). This option would move away from relying on standardised questions for all ESG financial products but instead would be coherent with the creation of categories, with disclosures tailored to the categories under which products fall (i.e. specific disclosures would depend on whether a product is largely composed of sustainable assets, or transitioning assets, or if the product implements other ESG processes). Accordingly, detailed

[88] For example, the Morgan Stanley study (2024) finds that 85% individual investors are interested in sustainable investing and the Schroders Study (2019) shows that the interest for sustainable investing has grown for 77% of respondents between 2015 and 2019.

[89] Retail Financial Services and Products - October 2022 - - Eurobarometer survey

[90] Such as the sustainable investment objective and the proportion of sustainable investment, the environmental and/or social characteristics, the investments in Taxonomy-aligned economic activities, the do no significant harm test, the consideration of principal adverse impacts on sustainability factors, the asset allocation, the use of derivatives in attaining the ESG characteristics/objectives, the use of a specific index as reference benchmark

disclosures would be required only for categorised products and the number of data points to report would be significantly reduced from the 25 currently standardised questions[91].

To strike a balance between providing the necessary and relevant information for investors and reducing the burdens for FMPs, the following measures would be taken:

- **Refocussing the templates on fewer indicators and sustainability topics which are relevant for investors' decisions.** A limit on the number of mandatory indicators for categorised products could also be defined (e.g. 5 indicators covering investors' interest in climate, environmental and social issues). The format of the templates would be standardised and its size (which would also include a description of the categories and its criteria) could also be limited to for example 2 pages. A shorter, standardised template focused on fewer indicators would also have the benefit of enhancing product comparability.
- **Such disclosures should rely on clear, measurable and usable concepts** rather than the currently high-level concepts which have proven complex to apply (such as sustainable investment). FMPs' experience with sustainability concepts and measures has increased significantly since the SFDR was introduced. Market observations can now inform on which indicators can be comparable across products[92] and which concepts can be properly implemented in a harmonised way. More information on how the criteria would be changed is provided under section 5.4**.**
- **Relying on concepts/KPIs for which information is either available from investee companies or possible to estimate** by FMPs/data providers when the information is missing. Two elements should be considered:
    - The SFDR requirements should be aligned with the future corporate reporting standards under the CSRD to ensure that at least EU companies subject to these rules report the necessary information. The revised ESRS standards should be adopted in 2026.
    - The information needed to implement the SFDR should be possible to estimate when the information is not available. A market study would be conducted to understand what type of sustainability data is feasibly possible to reliably estimate [93]. Annex 8 includes background information on the current estimation practices. This is key to avoid that the initiative inadvertently contributes to greenwashing due to an unreliable use of estimates.

Therefore, subject to the decision taken on the creation of categories under section 5.4, the disclosures could be tailored to each category and focus on: (1) compliance by the product with the criteria of the category; (2) the approach to sustainability chosen by the FMP; (3) the underlying methodology used and; (4) a requirement to disclose how the product meets a specified short set of ESG KPIs tailored to each category .

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[91] Commission Delegated Regulation (EU) 2022/1288, reporting templates from Annex II to V.

[92] Data from past disclosures by FMPs should be used to determine which KPIs are currently being disclosed, which can inform on their level of usability and ease of production. For example, the ESAs' annual report on PAI disclosures under the SFDR shows that the KPI on total GHG emissions is being widely disclosed across FMPs.

[93] For example, the PSF report already highlights which sustainability indicators lack publicly available or estimated data, such as biodiversity and water. The ESAs annual report mentioned above also gives a useful state of play of the reporting based on FY 2023. In addition, box 12 of annex 11 shows that ESG data is widely available on topics such as GHG emissions, exposure to fossil fuel sectors and exposure to controversial weapons. If the information available in these reports are not enough, a market study should be conducted to take stock of disclosures made under Article 4 SFDR.

Annex 8 provides for an illustrative example of what the new template would look like. Because this option would introduce considerable changes, the proposed changes should be tested on EU investors once the above essential contours and elements are agreed by co-legislators, before being finalised in the level 2 rules.

5.4. Policy options for setting up a clear and coherent sustainability-linked product categorisation system

To address the problem of poor comparability of ESG products and misuse of the current Articles 8 and 9, three different options can be considered on how to set up sustainability-related categories for financial products. The options discussed in this section reflect those which emerge as the preferred ones from stakeholder feedback, namely different combinations of distinct categories for 'sustainable', 'transition', and 'other ESG' products[94]. **Option 3.1** would set **3 new categories** (sustainable, transition, other ESG), **option 3.2** would set 2 **new categories** (sustainable, transition), and **option 3.3** would **convert the existing disclosure Articles 8 and 9 into formal categories** (sustainable and other ESG). Based on this stakeholder feedback, other options to either not create categories at all, or to create more than two or three categories are dismissed at the outset (as explained in section 5.5), also given that such approaches are assessed to be suboptimal in meeting the objectives defined in section 4.

Like the current use of the SFDR as a categorisation system, these categories would be **voluntary**. As explained at the start of section 5[95], in line with the principle of proportionality, the categorisation caters for FMPs which are committed to offering sustainability-linked financial products and for their clients which are interested in investing in them. However, some of the policy options presented limit the ability of non-categorised products to make ESG claims in marketing documentations and names. Also, the specific content of the disclosures builds on the information provided in Option 2.2 and would be largely defined by the type of category chosen and their underlying criteria.

Under the three options, the categories would be designed in a way that is **easily understandable by retail investors and usable by distributors** by (1) relying on terms that are understandable to non-experts; (2) reflecting different levels of ambitions/type of sustainability objectives that can easily be explained. The categories would not regulate every feature of products which would fall within them, but rather create certain high level requirements which categorised products would have to meet. They would aim at enabling investors and advisors to easily identify the products that can match certain sustainability preferences, supported by short mandatory disclosures (as per option 2.2 above). This implies that the names of the categories, as well as a short explanation of what the categories are (part of the product disclosures), must be enough for investors to get a clear idea of the (minimum) ESG standards followed by categorised products[96]. In contrast to today, where products can fall under either Article 8 or 9 depending on how FMPs decide to implement the SFDR concepts[97], the categories would cluster products into distinct groups based on their main claims ('sustainable', 'transition', 'other ESG') and how they meet clear predefined criteria.

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[94] See Annex 2, Section 3, sub-section 3 'Categorisation for financial products'. Note that the names used for the categories throughout this document are only indicative (see also below under 'Elements to be defined at level 1 vs elements to be defined at level 2.')

[95] See section '*Specific considerations for the formulation of policy options arising from the Omnibus proposal[95], the ESMA fund name guidelines and the principle of proportionality'*

[96] The categories would be on top of requirements for FMPs' e.g. in Chapter Ib of Directive 2007/36/EC (shareholder rights), requiring institutional investors and asset managers to be more transparent about their investment strategies, their engagement policies and the implementation thereof.

[97] See Annex 11, section 3.1.1

There is of course a trade-off between making the categories simple for FMPs and investors on the one hand, and heightened concerns of greenwashing on the other. To achieve the former, the categories should rely on a few key datapoints to cluster products and convey their main ESG features. However, there is a risk that this effort to simplify the framework will not rely on the right data, that is both available and of most interest to investors, or will omit some important environmental or social decision-useful data. In assessing the impacts, it should therefore be ensured that the data that is relied on for the categories is both available to a large degree, possible to estimate without excessive effort in case it cannot be derived directly from investees, and is proven to be the most decision-useful for investors, based on their preferences when investing in sustainability-related financial products. The descriptions of the options in this section and the analysis of section 6.3 (and Annex 8) weigh the impacts in terms of the balance between the expected benefits on the one hand and the costs/risks on the other. The analysis reflects how to best ensure the criteria for the categories support the objectives of the review in section 4 and strike a balance in terms of e.g. competitiveness and simplification objectives, ESG ambition, and issues of data availability and usefulness for investors.

The approach to supervision would remain the same, i.e. **NCAs would remain in charge of supervising the disclosures and would check whether categorised products comply with the underlying criteria of the categories.** The ESAs would continue to have a coordinating role and would be in charge of harmonising the supervisory practices/expectations of NCAs to avoid diverging rules or gold plating as much as possible.

Description of the three options

- **Options 3.1 and 3.2**

Option 3.1 and 3.2 both suggest creating categories which would rely on detailed criteria that are different from the current broader disclosure sustainability concepts of Article 8 and Article 9. These new categories would build on existing criteria under the ESMA Guidelines for funds names and current market practices. They would therefore reflect what FMPs have already adapted to and would be simpler, clearer and less data intensive than the current concepts of the SFDR (more details in box 3 below). The only difference between these two options is the number of categories, and therefore the potential coverage of the categorisation system. Both options are based on a voluntary regime, meaning that it applies only in case of explicit decisions by FMPs to offer sustainable, transition (and other ESG) products and by investors to seek and select them. There are restrictions however for products that are outside the categories on how they can be marketed to retail investors or use any relevant terms in the names.

Option 3.1: Three new categories – sustainable, transition, other ESG

To bring clarity to end investors as to which products have a level of sustainability-related ambition which would match their sustainability preferences, this option would establish three categories focusing on commonly encountered ESG/sustainability-related investment features and preferences from consumers (see Annex 10). These would be:

- **'Sustainable' category**: investments that contribute to sustainability goals (such as climate, environment, or social goals) such as investments in companies or projects that are already largely sustainable meeting specific sustainability standards.
- **'Transition' category:** investments in companies and/or projects which are not sustainable yet, but are on a credible transition path, or investments that contribute to transition goals (such as climate, environment or social goals).

- **'Other ESG'** category: investments which do not meet the criteria of the sustainable or transition investment categories but however apply credible environmental or social investment approaches (e.g. process-based strategies, such as the use of ESG ratings or outperforming the investment universe on a specific ESG indicator). Minimum safeguards would also apply to this third category.

Special considerations for the transition category

In contrast to the 'sustainable' and 'other ESG' categories, which would build on the approaches of Articles 9 and 8 of the current SFDR, an official 'transition' category would finally clarify the distinct characteristics of this type of strategies.[98] **The concepts and criteria that would underpin this category would reflect current market practices and build on the existing legislative framework for transition products** (ESMA guidelines), including existing practices on national supervision of transition plans. This category would not create a parallel definition of transition but would align with criteria developed under the Commission 2023 Recommendation on transition finance[99] and the criteria already mandatory for funds using transition-related terms in their names under the ESMA guidelines[100]. The criteria would also ensure coherence with the EU Climate Benchmarks and potential future regulatory development (e.g. CSRD and the Corporate Sustainability Due Diligence Directive) and would aim at striking a balance to ensure sufficient ambition and comparability on the one hand, as well as inclusiveness and flexibility on the other, allowing funding to flow to a transitioning real economy.

The evaluation annex highlights the challenges arising from the lack of recognition of transition finance under the SFDR despite the existence of many products with transition objectives disclosing under Article 8 and 9. This creates challenges for FMPs wanting to pursue a transition strategy while having to comply with the SFDR underlying concepts [101], hindering the possibility to conduct and disclose diverse transition-related investment strategies. This leads to confusion and lack of appropriate disclosures for investors interested in investing in products with transitional objectives. The consultation confirmed a large degree of support (72% of respondents) for creating a specific category for transition products, including as an inclusive strategy to focus on efforts to improve companies' performance regardless of their starting points and to help operationalise the concept of 'transition finance', developed under the Commission 2023 Recommendation on transition finance.

Potential role for the categories: Option 3.1 would create a categorisation system that could potentially scope-in a large majority of ESG financial products (due to the third category). Due to this large scope, the categories would play an important role in limiting which products are allowed to make ESG claims in their marketing documentation and in their names. For example, only categorised products could be allowed to use ESG related terms in their names and add ESG elements in their marketing documentations. Categories could also determine which SFDR products could be distributed to retail investors with sustainability preferences aligned with the categories' criteria (under MiFID and IDD). The third category would ensure that all products making ESG

[98] Different FMPs have follow different approaches, as it is not clear whether such strategies should be reported under Article 8 or 9 of the current SFDR.

[99] Commission Recommendation (EU) 2023/1425 on facilitating finance for the transition to a sustainable economy

[100] From the guidelines: "Transition"-related terms encompass any terms derived from the base word "transition", e.g. "transitioning", "transitional" etc. and those terms deriving from "improve", "progress", "evolution", "transformation", "net-zero", etc.

[101] This is mainly due to the SFDR DNSH test (which can be seen at odds with the strategy of transition finance as it does not allow for the inclusion of assets that cannot be considered as sustainable at the time of the investment) and the technical misalignments between the sustainable investment definition and the underlying criteria of the EU Climate Transition Benchmark (defined under the Benchmark Regulation).

claims (marketing documentations, names, or be distributed as products with ESG features) are regulated and comply with minimum safeguards[102].

Option 3.2: Two new categories – sustainable, transition

This option would be the same as option 3.1, but without a third category. Option 3.2 would set up two categories: **'sustainable' category and 'transition' category**. These categories would be the same as the ones suggested under option 3.1.

Potential role for the categories: Option 3.2 would create a narrower categorisation system that would only cover the most ambitious ESG products[103]. Instead of dividing the market of ESG products into three clear clusters and ensuring common criteria for all ESG products, the categories would bring visibility to the most ambitious ESG products. Due to the narrow scope, it would not be feasible to link the categories to the marketing communications, naming and distribution rules to the same extent as under option 3.1 (not enough products would be covered). Uncategorised products making ESG claims in marketing communications and names would therefore continue to exist and be available to investors.

Elements to be defined at level 1 vs elements to be defined at level 2

The below describes the general division between level 1 and level 2, and box 3 below provides concrete examples of what specific elements would be defined at level 1 and at level 2.

Unlike the current SFDR level 1 text, which has allowed for unduly complex and disproportionate rules in the level 2[104], the revised level 1 text would **concretely define the categories and their delineation by setting their essential features, i.e. main elements of the criteria, administrative procedures and supervisory framework**. These include for example the key principles and requirements both for the positive criteria (sustainability objective measured by credible indicators and covering a mandatory threshold of the product) and the negative criteria (list of exclusions). The below section provides for a detailed description of the essential features of the categories (see also box 3 and annex 8).

Already setting these elements at the level 1 allows for the assessment of the categories' scope and impact against the objectives identified in Section 4 in terms of their effectiveness, efficiency and coherence. Building on these, section 6 analyses the categories' potential to simplify the implementation of the SFDR and reduce the costs for FMPs as well as to increase investors' protection and enhance the comparability of ESG products.

The level 1 text will set out an empowerment for the Commission to develop a limited set of level 2 implementing rules to supplement these key elements with more technical requirements

[102] Uncategorised products would still be allowed to include ESG elements in their regulatory documentation
[103] The alternative of creating broader 'sustainable' and 'transition' categories to capture a broader share of the market does not emerge as an option with significant support, based on stakeholder feedback (Annex 2) and consumer studies (Annex 10).
[104] See Annex 11, Section 3.1.1

linked to the criteria. For example, level 2 rules could involve setting specific KPIs for measuring and comparing the positive contributions of different types of products depending on the ESG objective (see box 3 below), specifying how the contribution of various assets/investees are to be calculated for meeting the positive criteria[105], and any permitted deviations from the exclusions at portfolio level e.g. for hedging purposes[106], as well as setting the names of the categories following market testing. The level 1 will impose strict limits on the future level 2 to ensure proportionality between ESG and non-ESG products to avoid disincentivising FMPs from offering the former.

Similarly to the disclosures, defining well-specified technical elements at the level 2 would allow for:

- **Conducting additional market studies ensuring that the final technical requirements linked to the categories (criteria and disclosures) are usable by FMPs**. This should be done after the essential contours and elements of the categories are agreed by co-legislators. Such market studies could be conducted by the ESAs and should test the criteria on the existing ESG market to ensure that the categories would capture a sufficient portion of the existing market and confirm that they rely on reliable and available ESG information. For example, criteria would not rely on indicators for which the information is neither available from companies (public reporting) nor possible to estimate. More information on the criteria and the estimation considerations/practices is in *box 3 and Annex 8*. Conducting regular market studies will also have the benefit of monitoring how the framework is evolving, also in light of market innovation, development of new products and data, and changes in investors' preferences, and ensure comparability is maintained over time.

- **Conducting additional consumer testing studies ensuring that the names of the categories are understood by retail investors in all EU languages.** The existing consumer studies (described in *annex 10*) and engagement activities (described in *annex 2*) already identified certain sustainability topics and information that are deemed important by EU investors and confirmed the need to establish EU categories. However, there has not yet been an EU-wide consumer study looking at how to name such categories for them to be easily understandable in different EU languages and to convey the correct message to EU retail investors. Once their essential contours and elements are agreed by co-legislators, the names of the categories would need to be tested in all EU countries, which could be done by the ESAs, with the help of NCAs. Setting the name after the political decision on the categories' main features would allow the Commission to reflect any changes from the co-decision process, ensuring form follows function, and avoiding pre-establishing category-names which, in the end, could be at odds with the key features of the categories and mislead investors. It would also be important to ensure the names are coherent with other EU policy measures[107]. <u>The names used for the categories throughout this document are thus only indicative.</u>

[105] For example, to determine rules regarding shares of portfolios to which chosen key performance indicators would apply etc.

[106] Some suggestions are made that e.g. derivatives routinely used for hedging purposes could reference companies otherwise covered by the exclusions.

[107] As flagged in the evaluation annex, the use of similar terms under the SFDR and the EU Taxonomy Regulation led to confusion and complexities for investors (i.e. the two different DNSH tests, the two approaches to contribution, the similar terms under 'good governance' and 'minimum safeguards'). The names of the categories will need to ensure coherence with other EU related measures and avoid replicating existing terms if the meaning is different.

- **Aligning with the future EU corporate reporting under the CSRD,** which will be revised once the Omnibus proposal will be adopted (indicative timing: 2026). This will ensure coherence in the data provided under ESRS and the indicators and disclosures under the future SFDR level 2.

In addition, **the date of effect of new level 1 rules would be sufficiently deferred to make sure that they enter into application together with level 2, after a sufficient implementation period.** At this stage it is too early to anticipate details on the content of the level 2 measures, as they will be impacted by the negotiations with the co-legislators. However, they will be subject to considerations on the cost-benefit analysis and follow the better regulation guidelines.

Description of the proposed criteria under options 3.1 and 3.2 (to be read in conjunction with box 3 below and Annex 8)

The central SFDR concept, i.e. the 'sustainable investment' definition in Article 2(17), builds on three principles: (1) contributing to an environmental or social objective; (2) causing no significant harm to other environmental and social objectives (based on the consideration of principal adverse impacts), and (3) investing in companies with good governance practices. The revised criteria would retain the concept and build on this while **improving these core principles by underpinning them with a set of clear minimum requirements.**

The evaluation (annex 11) and problem definition (section 2) has identified the lack of clarity linked to the concept of 'sustainable investment', which has led to widely different interpretations and implementation approaches amongst FMPs. As shown in box 10 of annex 11, the exposure to sustainable investments of products tracking a similar benchmark can range from 1% to 80%.

The evaluation also finds that the 'DNSH test', which is done through the high-level principle of 'consideration of principal adverse impacts', has not led to harmonised implementation practices and has not prevented harmful investments. This is mainly because the current SFDR leaves considerable discretion to FMPs in choosing how they consider these impacts.

To remedy this, two criteria for ESG categories are suggested:

- **Positive contribution: Setting a minimum portion of investment to contribute to the sustainability objective** (70/80% of the product)[108] –

- **Exclusions: Setting clear exclusions of harmful industries and activities in which products cannot invest in** – *these exclusions would be aligned with the ones of the EU Climate Benchmarks, as introduced by the ESMA guidelines on funds' names*

The changes would aim at simplifying the current framework and:

- Formalise the categorisation of products and clearly delineate between the different categories, bringing legal clarity to both FMPs and end-investors.

- Introduce some common elements to underpin FMPs' diverse approaches for ESG products, based on data that is available, measurable and possible to estimate, and minimising fragmentation in supervisory practices amongst NCAs.

[108] For reference, ESMA guidelines refer to 80%, while the UK FCA labelling rules refer to 70%.

- Protect end-investors against misleading claims and increasing the comparability of ESG products.

The main positive impacts of the suggested criteria compared to today's situation are described in **table 1 of annex 8.**

<u>High level principles to be reflected in the criteria:</u>

To deliver against the specific objectives of the review, the criteria should reflect the following principles:

- First, the criteria should draw on **reliable and comparable sustainability information** and take account of the data availability considerations outlined above[109]. **The criteria should be designed in a way to mitigate as much as possible the data availability issues and the related greenwashing risks.** This can be done by **focusing the concepts on information that is available from investee companies in scope of the CSRD** (i.e. aligning with the upcoming streamlined ESRS), on information included in widely used or endorsed international frameworks such as the ISSB and the GRI, other emerging voluntary sustainability-related information standards such as the one to be adopted as a delegated act according to the Omnibus proposal, and based on the voluntary standard for SMEs (VSME) developed by EFRAG[110], and **information that is possible to estimate** (see below the special considerations for estimates).

- Second, the criteria should **take into account existing market practices** to ensure continuity (especially regarding the criteria introduced by ESMA guidelines on funds' names). This would allow to lower the one-off implementation costs and ensure regulatory stability[111].

- Third, the criteria should ensure **sufficiently high environmental/sustainability ambition,** and focus on information shown to be most useful to investors, in order to meet their expectations, mitigate greenwashing risks and respect the precautionary principle. At the same time, the criteria should be **achievable by a reasonable portion of current products making quality ESG claims** to make sure that the categories do not unduly disrupt practices as explained above[112].

- Finally, the criteria would need to enhance the **comparability of products and bring sufficient legal clarity** in order to **harmonise implementation and supervisory practices to the extent possible.** At the same time, the criteria would also need to allow for **sufficient flexibility for FMPs to fit diverse investment strategies and asset classes** (e.g. equities, bonds, indices, etc.).

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[109] 'Specific considerations for the formulation of policy options arising from the Omnibus proposals, the ESMA fund names guidelines and the principle of proportionality'

[110] Omnibus proposal COM (2025)81 final; Commission presents voluntary sustainability reporting standard to ease burden on SMEs - European Commission

[111] There are currently 4,220 open-ended funds and exchange-traded funds with ESG-or sustainability related terms in their names, i.e. in scope of the ESMA guidelines. Source: Morningstar, ESMA Guidelines on ESG funds naming rules, May 2025

[112] 'Specific considerations for the formulation of policy options arising from the Omnibus proposals, the ESMA fund name guidelines and the principle of proportionality'

Box 3: Description of the proposed criteria under option 3.1 and 3.2 (see Annex 8 for more information)

Description of main elements of the criteria and their benefits (see Annex 8 for more information)

(1) **Positive contribution – setting a minimum portion of investment to the contribution leg of the current definition to boost comparability:**

Starting from the assumption that the categories are voluntary, FMPs would still be free to choose their own sustainability objective(s) and how they plan to achieve them (subject to proper transparency). However, aligned with the ESMA guidelines on fund names, **a certain percentage of the product's portfolio would need to follow an ESG strategy that matches the ESG claims they make**[113]. Products falling under the sustainable and transition categories would need to show how a specific percentage of their investments contribute to a clear sustainability objective and explain how they measure that. Products falling under the 'other ESG' category would need to demonstrate that a specific percentage of their portfolio aligns with the chosen ESG claims or processes.

In addition, the assessment of performance against the objective should be monitored and disclosed and should be based on credible and where possible science-based indicators chosen by the FMPs. The SFDR (level 2) could provide a non-exhaustive list of ESG indicators on certain sustainability topics for FMPs' use[114].

(2) **Exclusions – a negative screening test replacing the DNSH and good governance legs in the current sustainable investment definition.**

This would take the form of a clear list of industries or activities that products should not be able to invest in (e.g. based on the ESMA guidelines and reflecting a wide consensus of harmful industries or those with high carbon footprints)[115]. Such exclusions would make rules more consistent across the EU, harmonise the NCAs' supervisory expectations and enhance comparability between products. Also, by focusing on fewer sustainability topics than the current do no significant harm provision, this approach would reduce the amount of data that FMPs need to collect. Given these new minimum safeguards would not cover all the ESG aspects previously covered by the PAIs (e.g. biodiversity and water), FMPs could continue to identify and consider material negative outcomes on these topics on a best-efforts basis. As data availability develops around e.g. water, biodiversity, circular economy etc, the scope of the exclusions could also be reviewed.

[113] The ESMA guidelines requires funds to meet an 80% threshold for the "proportion of investments used to meet environmental or social characteristic or sustainable investment objectives in accordance with the binding elements of the investment strategy"

[114] The level 2 rules could provide a non-exhaustive list of ESG indicators that FMPs can use to monitor their performance against certain sustainability objectives (e.g. climate, water, biodiversity etc). These indicators would be voluntary and aim at supporting FMPs in the implementation and boosting comparability. However, FMPs would be free to use other indicators if the ones provided in the level 2 rules do not fit their objectives, assets or strategies (e.g. impact strategies which call for more specific and targeted KPIs).

[115] The ESMA guidelines require funds to exclude certain companies referred to in the EU climate benchmark exclusions.

Concretely, this could translate into the following criteria (illustrative purposes only):

- **Sustainable category:** (1) exclusion of investments into companies excluded from the EU Paris-Aligned Benchmarks (PAB)[116]; (2) 70/80% of the portfolio to align with the strategy of the product for positive contribution to sustainability. The assessment of performance against the objective should be monitored and disclosed and should be based on credible and where possible science-based indicators chosen by the FMPs. The SFDR (level 2) could provide a non-exhaustive list of ESG indicators on certain sustainability topics for FMPs' use. For example, investments in a certain amount of Taxonomy-aligned activities could be one possible way to demonstrate contribution to climate and environmental objectives.

- **Transition category:** (1) exclusion of companies excluded from the EU Climate Transition Benchmarks (CTB)[117]; (2) 70/80% of the portfolio to align with the strategy of the product to demonstrate positive contribution to transition or be covered by a portfolio level strategy (e.g. relative/absolute GHG emission reduction of the portfolio per year). The assessment of performance against the objective should be monitored and disclosed and should be based on credible and where possible science-based indicators chosen by the FMPs. The FMP could use the following non exhaustive approaches for measuring the performance of the product : (a) investments in undertakings or economic activities with a credible transition plan at the level of the undertaking or activity, including science-based targets; (b) investments in portfolios tracking EU climate transition benchmarks (PAB/CTB); (c) engagement with investee companies demonstrating measurable change; and (d) investment in Taxonomy-eligible economic activities becoming Taxonomy-aligned[118] and partially aligned Taxonomy assets[119]. The level 2 could specify limited details of how to measure performance in relation to the indicators.

- **Other ESG category:** (1) the same CTB exclusions as for the transition category above; (2) 70/80% of the portfolio to align with the overall strategy. The assessment of performance against the objective should be monitored and disclosed based on relevant indicators chosen by the FMPs. The level 2 could set out voluntary indicators based on further market study.

How these criteria could be spelled out in Level 1 and Level 2 (illustrative purposes only):

Level 1 – (1) list of exclusions per category, (2) 70/80% requirement for the investments to support the positive contribution objective and strategy of the product, (3) non-exhaustive list of

[116] Companies involved in (1) any activities related to controversial weapons; (2) the cultivation and production of tobacco; (3) in violation of the UN Global Compact (UN GC) principles or the OECD Guidelines for Multinational Enterprises; (4) companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (5) 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; (6) 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; (7) 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh. In addition, the exclusion would specify that investees could not be engaged in activities involving fossil fuel expansion.

[117] Companies involved in (1) any activities related to controversial weapons; (2) the cultivation and production of tobacco; (3) in violation of the UN Global Compact (UN GC) principles or the OECD Guidelines for Multinational Enterprises. In addition, the exclusion would specify that investees could not be engaged in activities involving fossil fuel expansion.

[118] In accordance with Article 1(2) of Commission Delegated Regulation (EU) 2021/2178 over a period of maximum 5 (exceptionally 10) years, in other words where investee companies have related CapEx plans.

[119] Based on the concept proposed and to be developed under the Omnibus – namely new provisions in Articles 19a(5) and 29aa(5) of Directive 2013/34/EU

approaches for measuring performance in relation to the objective and strategy depending on the category.

Level 2 – (1) names of categories, (2) possible common indicators to assess and monitor the performance against the objective for voluntary use by FMPs (based on available and reliable ESG data), and (3) short disclosure templates per category[120].

How these criteria would help achieve the specific objectives of enhancing comparability and reducing the burdens for FMPs

The main impacts of the suggested criteria (compared to today's situation) are described in **table 1 of annex 8.**

Impacts of the exclusions:

- Enhancing comparability of financial products: Such exclusions would make rules more consistent across the EU, harmonise the NCAs' supervisory expectations about what categorised products cannot invest in, and therefore enhance the comparability between such products, in line with investors' broadly signalled preferences regarding which sectors should be excluded (Annex 10).

- Limiting implementation costs and aligning with existing market practices: First, these exclusions have already been introduced under the ESMA guidelines for ESG funds names, which started applying in May 2025. The number of funds currently applying these requirements has been estimated at 4.570. Second, market analyses[121] show that **the implementation of sectoral exclusions are the key elements of comparability identified in funds with ESG characteristics or objectives**, demonstrating the well-established market practices around exclusions. Finally, market studies have showed that **estimation practices on PAB exclusions are very well developed**[122] which minimises costs for FMPs and the divergent approaches across data vendors in estimating PAB exclusions.

- Usability challenges: certain usability challenges are noted with specific data points among the exclusions and how they are used in particular regarding whether violations of UN Global Compact (UN GC) principles or the OECD Guidelines for Multinational Enterprises are 'reported' or 'committed'. It is also unclear when a company is no longer considered in violation if it happened a long time ago. The future regime should cater for bringing clarity in this regard in level 2.

Impacts of the positive criteria:

- Enhancing comparability of financial products: The levels of sustainable investment would be harmonised across all categorised products, ensuring common levels of

[120] As well as the details mentioned above under 'Elements to be defined at level 1 vs elements to be defined at level 2' on e.g. how the contribution of various assets/investees is calculated for meeting the positive criteria, rules for indicators' coverage of portfolios, and any permitted deviations from the exclusions at portfolio level e.g. for hedging.

[121] Studies include Frank Bold, SFDR review : analysis of current practices and future directions for investors, December 2024, and Morningstar: SFDR_Article_8_and_Article_9_Funds_Q4_2022.pdf

[122] See section 1.4 Annex 8. EU Platform on Sustainable Finance, Data Vendor Survey 2024, March 2025. The survey concluded that high levels of consistency were found in the estimations of exclusion across vendors, with 80% of issuers showing 0% divergence in their estimations of PAB exclusions

contribution. In addition, the reinforced transparency around the measurement of the performance would allow investors to get more granular information on the type of contribution. Finally, setting voluntary common indicators for the measurement (at level 2) could boost the comparability of the disclosures on contribution.

- Limiting implementation costs and aligning with existing market practices: Like the exclusions, a 80% threshold for contribution has already been established by the ESMA guidelines for ESG funds names. In addition, FMPs would remain free to set their own objectives, therefore choosing the sustainability topics for which they believe they can access comparable data from their underlying investments.

Practical limitations to reach perfect comparability on contribution (positive criteria)

There are certain practical limitations to the levels of comparability which can be reached/required from products. Findings from the evaluation[123] show that there is no 'one size fits all' on how to granularly define what a positive contribution to a sustainability objective should be. This is mainly due to the wide variety of assets, strategies, sustainability objectives that exists in the current market. If a very granular and common (mandatory) approach to contribution was to be applied to all products regardless of their sustainability objective (e.g. minimum alignment with the EU Taxonomy), the investment universe would be too restricted, and the categories would not be usable (i.e. only a handful of products could be categorised). Further, this would not align with the specific and general objectives of this initiative[124].

In fact, the potential of categories to simplify the framework for FMPs and to enhance the comparability of products and fight greenwashing would be significantly lowered if they left most prospective ESG products out of scope and only a handful of EU products are categorised. Therefore, the suggested criteria focus on ensuring harmonised levels of contribution, to be defined by FMPs, rather than granularly defining the nature of the contribution for them. This would also ensure continuity with what investment funds had to implement under the ESMA guidelines on funds' names (in application since May 2025).

Possible additional measures which could be explored

In addition to the measures described above, the Commission could be empowered to define a minimum ESG performance for certain sustainability objectives. In order to set this comparable minimum quantitative criterion on performance, two elements would be needed: (1) widely available data from underlying investments or otherwise estimable datapoints; (2) a politically agreed science-based target (e.g. minimum performance on GHG emissions for climate-related objectives) so that the law can set that minimum threshold unequivocally.

[123] For example, the different approaches to contribution described in Frank Bold, SFDR review : analysis of current practices and future directions for investors, December 2024

[124] E.g. to illustrate the point, limiting ESG products to those for which granular publicly available data is available under the (post-omnibus) CSRD, would represent a considerable change and challenge for FMPs in terms of administrative requirements and continuity (vs. specific objective 1), give investors a very narrow ESG product range for any meaningful comparison to serve their demonstrated interest in ESG investing (vs. specific objective 2; Annexes 2 and 10), and would rather diminish the scope of the EU single market for sustainable finance rather than boost its integrity (vs. general objective 1) and potential to efficiently allocate capital for Europe's competitiveness and sustainable prosperity (vs. general objective 2).

Additional considerations linked to estimations

Due to data availability issues the use of estimates will be inevitable and is already part of current market practices given that the investable universe for financial products always extended beyond listed and larger EU companies, including non-EU companies and assets that are not covered by EU reporting rules[125].

The evaluation (*Annex 11)* identified two shortcomings linked to estimations in the SFDR implementation: (1) the use of estimates is currently unregulated and lacks harmonised guidance; (2) the data required is sometimes not possible to estimate when not disclosed by the company (either due to the nature of the topic/indicator, e.g. board composition, or due to usability issues linked to the specific definition, e.g. emissions to water[126]. These limitations led to greenwashing concerns and lack of legal clarity for FMPs. In contrast, the proposed criteria and exclusions are based on existing market practices, would acknowledge the continued use of estimates, build on findings from market analysis on which indicators are mostly disclosed by companies and of interest to investors, and rely on common metrics which are possible to estimate in a harmonised way. On the other hand, the evaluation does not strongly identify the lack of regulation of data providers themselves as a major shortcoming, nor one which would cohere with the objectives of the targeted review of the SFDR (including in the context of overall simplification[127]).

The level 1 should thus allow the use of estimates and introduce principles and guidance for this purpose, to mitigate **greenwashing concerns and provide certainty for FMPs.** *Examples of such principles and guidance are provided in Annex 8.* Once agreed by co-legislators, together with the main elements and requirements linked to the categories and criteria, the ESAs could be tasked to test and confirm what type of sustainability data is feasible to reliably obtain and estimate (see above 'Elements to be defined at level 1 vs elements to be defined at level 2')[128].

- **Option 3.3: Converting Article 8 and 9 into categories – sustainable, other ESG**

As an alternative to options 1 and 2, this option would involve a less far-reaching amendment of the SFDR by transforming Article 8 into an 'other ESG' category and Article 9 into a 'sustainable' category. There would therefore be no standalone category for transition finance products. Given the option would seek to make minimal changes, the underlying requirements and concepts would remain largely like the ones of the current Article 8 and 9 (with some possible targeted amendments to improve their clarify and usability).

This option would largely affirm the current market practice of treating these two Articles as de facto categories, underpinned by current sustainability concepts (e.g. sustainable investment,

[125]Between 30% and 50% of the average holdings of EU asset managers consist of entities not subject to CSRD reporting requirements (and therefore do not publish Taxonomy or CSRD sustainability data). As a result, FMPs are already forced to source the missing data either internally or commercially from third-party providers. See ESMA report on Trends, Risks and Vulnerabilities (TRV), 2023

[126] See box 12, Annex 11

[127] See Annex 8, section 3

[128] For example, the PSF report already highlights which sustainability indicators lack publicly available or estimated data, such as biodiversity and water. The ESAs annual report mentioned above also gives a useful state of play of the reporting based on FY 2023. In addition, box 12 of annex 11 shows that ESG data is widely available on topics such as GHG emissions, exposure to fossil fuel sectors and exposure to controversial weapons. An analysis by EFRAG of the first reporting in 2025 under CSRD/ESRS for a sample of 656 companies also confirms that, while topics such as climate change mitigation and social topics such as business conduct and own workforce are considered material and reported on by over 80-90% of companies, topics such as biodiversity and water are considered material and reported on by 30-40% of companies. (EFRAG_State of Play 2025 Report_0.pdf)

DNSH, promotion of environmental and social characteristics etc.). Crucially, there would be no sectoral exclusions like in options 3.1 and 3.2, notably for the 'other ESG' category.

Potential role for the categories: Option 3.3 would create a categorisation system that could play a similar role as the one under option 3.1. The difference would be the absence of recognition for transition finance products and the limited changes in the current unclear underlying requirements.

5.5. Options discarded at an early stage

Non-regulatory measures. Further guidance and other soft tools e.g. Q&As are considered insufficient to effectively address the problems identified in section 2, to comprehensively meet the objectives specified in section 4.2 and to respond to stakeholder feedback calling for the creation of clear product categories. Rather, the risks noted in sections 3.1 and 5.1 with the baseline scenario would likely increase (emergence of new national measures to tackle the problems, further fragmentation etc). In this context, effectively prolonging the status quo yet attempting to introduce further guidance to address the identified problems, as well as new ones emerging from the implementation of the Omnibus, would add to the extensive Level 3 guidance already in place. Some guidance could be effectively impossible to provide, in case of new inconsistencies or contradictions between the SFDR and revised CSRD/Taxonomy. As mentioned in section 5.1, the ESMA guidelines could help to an extent in governing the use of ESG terms in fund names and providing stability and continuity to markets. However, tensions could emerge between the (simple, but non-binding and non-comprehensive) guidelines and further additional complexities in underlying SFDR disclosures, going against better regulation principles of ensuring coherence between different policy instruments[129]. This could add to further confusion and compromise any anticipated benefits in terms of meeting the objectives in section 4.2 (i.e. simplify and improve the coherence of the framework for financial market participants as well as improve end-investors' ability to understand and compare ESG products). It could also generate disengagement among some FMPs, who could potentially withdraw from offering sustainability-linked products.

No category. Proposing that ESG financial products should not be categorised at all could be seen as a simplification on paper, and in some ways a coherent step following the Omnibus. An argument could be made that less ESG data from investees means less scope for creating a meaningful product categorisation under SFDR. However, this conflates the objectives of the Omnibus on the one hand (simplifying excessive sustainability reporting requirements for corporates) and the SFDR on the other (meeting investors' demand for ESG information regarding financial products), effectively denying the validity of the latter in a post-Omnibus scenario. As explained previously, ESG data for financial products was never only to be derived from (pre-Omnibus) European corporate disclosures. Moreover, the demand among EU investors for ESG information regarding financial products remains strong[130]. Thus, creating categories is arguably a necessary and coherent step following the Omnibus, to convey a high-level message of products' key features according to a simpler set of key measurable parameters, to compensate for a decrease in detailed constituent ESG data from investees. Providing for no category would also represent a departure from (i) the revealed preference of markets today (in the treatment of Articles 8 and 9 as de facto categories) to distinguish between ESG products, (ii) the preferences expressed by a wide range of stakeholders in the consultation to introduce a proper, clear(er) categorisation[131], and (iii) the changes which markets have adopted in applying the ESMA fund name guidelines. It would effectively amount to removing any distinction between ESG products (implying amendments to Articles 8 and 9), constitute a major change, and would thus be contrary to the aim of not forcing

[129] E.g. tool #17 Choice of policy instruments
[130] See Annex 10
[131] See Annex 2, Section 3, sub-section 3 'Categorisation for financial products'

undue changes on markets which have adapted to the current rules[132]. It could also necessitate yet more extensive ESG disclosures to distinguish between products and to compensate for the lack of a high-level clustering of products according to their key objectives and features. The option is thus dismissed from the outset as an effective, efficient and coherent way of meeting the objectives in section 4.2 (i.e. simplify and improve the coherence of the framework for financial market participants as well as improve end-investors' ability to understand and compare ESG products).

One category. Alternatively, creating a single category for all products making ESG claims would also represent a further complication and reordering of the market for FMPs and less clarity for investors. To accommodate all potential products, it would run the risk of having to rely on new (broad) concepts, with potentially heavily watered-down criteria and safeguards. As above, the changes from the Omnibus do not in themselves annul investors' continued interest in receiving more comparable information on the different ESG features of products. Product disclosures could also potentially need to increase to cater for this. Legal certainty would be unlikely to improve, with continued need for further guidance, going against the aim of simplifying and improving the coherence of the framework for financial market participants. Transparency for investors and the quality of products on offer would likely suffer, impairing end-investors' ability to understand and compare ESG products.

More than three categories. Finally, going beyond three categories could also entail an unduly significant – and unnecessary – reorganisation of the market for FMPs, of questionable added-value for investors. As the number of categories increases, the criteria needed to distinguish between them could become excessively intricate, adding further complexity in a way that would be incongruent with the Omnibus and the added data challenges it brings. There could be a risk that only a few products would ever populate a given category. The Platform proposals confirm the broad stakeholder feedback in favour of a more limited number of categories and find that this would achieve a balance in terms of capturing different products within simple, high-level categories, while allowing for product innovation and diversity targeting different investment strategies and asset classes, as well as ensuring sufficient investor protection[133]. The additional intricacies and drawbacks associated with going beyond three categories are thus considered suboptimal in meeting the objectives of simplification and usability for end-investors.

6. WHAT ARE THE IMPACTS OF THE POLICY OPTIONS AND HOW DO THEY COMPARE?

6.1. Option 0: Repeal of the SFDR[134]

❖ ***Expected benefits and potential drawbacks for data preparers (FMPs)***

This option would effectively remove the implementation costs associated with the SFDR by deleting all entity-level and product-level disclosures. FMPs would be free to choose what ESG-

[132] See above under 'Specific considerations for the formulation of policy options arising from the Omnibus proposal, and the ESMA fund name guidelines and the principle of proportionality'

[133] Categorisation of products under SFDR - Report, Annexes B and H. This is anecdotally also confirmed by the experience of the UK in testing their voluntary labelling system for funds (see Annex 6 section C), where investors were found to prefer a limited number of clear and discrete labels that convey the main sustainability outcomes of a fund rather than more extensive categorisations based e.g. on complex gradations or ratings based on numerical systems, or reliance on unintuitive concepts.

[134] This option is recapped in the comparative tables below under sections 6.2.1 and 6.2.2 against the options to adjust entity and product level disclosures in the current framework, which is what would be repealed by this option. It is not repeated in the comparative table in section 6.3 against the options for product categories, which are not part of the current framework, and a comparison against which would therefore be less meaningful and informative.

related disclosures, if any, to make to investors and the wider market. There would be no mandatory sustainability-linked product disclosures (those for in-scope companies, including financial entities, would continue under the post-omnibus CSRD) and the field would become unregulated, apart from the use of names as per the ESMA fund name guidelines which only cover a limited number of products[135] (unless these were repealed by ESMA as well – see below under 'coherence') and other horizontal rules governing environmental claims[136].

The main drawback would be that the investments made, and client-bases established, under the SFDR would be cast into doubt. FMPs would no longer have a common regulatory framework for sustainability-linked claims involving financial products. FMPs that have built a competitive position out of ESG-investing and the implementation of the SFDR would face a degree of commercial uncertainty.

- ***Expected benefits and potential drawbacks for data users (mainly investors and supervisors)***

Repealing the SFDR would remove the existing ESG transparency for financial products required under SFDR and would leave markets to design the scope and details of ESG-information involving financial products. Some market-based solutions could potentially constitute viable alternatives to corresponding SFDR provisions, but without certainty that these would happen. Repealing would also go against the **current demand for ESG information,** as described in section 5.3.2 and elaborated in Annex 10.

The drawback would be that it would create a regulatory void in terms of the availability of structured ESG information regarding financial products. Distributors and investors would no longer have a common regulatory framework for this purpose. If only the ESMA guidelines remained, there would be a significant unlevel playing field across financial products given the limited, and non-binding scope, of such guidelines, to the detriment of investor protection. Product comparability beyond the name would deteriorate and search costs involving more in-depth features of financial products for investors with sustainability preferences would increase. Apart from the name, these investors would need to make sense of other ESG claims made by products themselves. These claims, such as claims in marketing documentations, would be unregulated, raising risks of greenwashing. The Directive on unfair commercial practices, including the recent amendments and Commission guidance[137], would remain applicable horizontally to all business-to-consumers transactions, but repealing the SFDR would not be coherent with its recognition that financial services warrant specific regulation (Article 3.9; 3.4), given higher levels of information asymmetry between financial market participants and investors[138]. FMPs could choose different ways of

[135] The obligations in the ESMA fund name guidelines are relevant to all fund documentation and marketing communications addressed to investors or potential investors for UCITS and AIFs, including when they are set up as EuVECAs, EuSEFs, ELTIFs and MMF.

[136] Namely, changes introduced by Directive (EU) 2024/825 amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and through better information (see also Annex 6, section 3).

[137] Commission Notice – Guidance on the interpretation and application of Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market

[138] Negotiations on the proposed Green Claims Directive, still underway in Q4 2025, would likewise defer to EU financial services rules including in the areas governed by the SFDR and not apply additional requirements to mandatory or voluntary sustainability information required thereunder.

showcasing their ESG claims as there would be no common framework requiring FMPs to provide any information, and in a structured manner (i.e. against common criteria)[139].

Overall assessment: effectiveness, efficiency and coherence

Effectiveness in addressing the specific problems

This option partly addresses the difficulties faced by FMPs in coping with the lengthy requirements and the costs associated with the lack of publicly available ESG data (problem drivers 1 and 3). It would primarily serve the specific objective of simplifying and reducing administrative burdens. However, the effects would be negative regarding the objectives of ensuring overall coherence with the rest of the sustainable finance framework (see below) and improving end-investors' ability to understand and compare ESG products. Horizontally applicable consumer protection rules traditionally rely on specific provisions in financial services to ensure investor protection and would be highly unlikely to function effectively to serve this purpose.

Efficiency (costs)

This option would cancel out the costs associated with the SFDR compared to the baseline scenario, estimated to represent an annual total of EUR 246 million in recurring costs (see Annex 3, section 3.10), but investments in commercial opportunities pursued through SFDR compliance would be subject to new uncertainty.

Coherence

A repeal would mean that the field for sustainability-linked disclosures by FMPs would become unregulated, apart from the use of names as per the ESMA fund name guidelines. These have become, after some initial pushback[140], a broadly accepted and useful source of clarity for FMPs and investors. Indeed, the options further below build on key elements of the guidelines to help achieve some of the objectives above. However, in a scenario in which the SFDR were repealed, there would be some drawbacks in relying on the guidelines alone (in conjunction with horizontal consumer protection rules) to govern, and sustain, the EU single market for sustainability-linked financial products. For one, the guidelines do not apply to all products under the scope of the SFDR, namely pensions and insurance products, for which FMPs signal a continued preference to be covered under common EU rules. Second, they do not constitute strict legal requirements[141], and inform only the use of ESG terms in fund names, not touching upon other disclosures made to investors under the SFDR.

National solutions might emerge to address the resulting information gaps and risks, which could fragment the single market (and thereby revive one of the original problem drivers behind the creation of the SFDR in the first place[142]) and go against overarching objectives under the Savings and Investments Union. Tensions between potential measures in national law could emerge with the ESMA guidelines, which might even force them to be withdrawn, denying the single market of any common EU rulebook in the area.

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[139] Technically, as the ESMA guidelines also hinge on some SFDR concepts and templates for their effect (definition of "sustainable investment", disclosures of compliance with the guidelines to be done in SFDR level 2 templates), these elements in the guidelines would also be rendered moot/weakened by a repeal.

[140] See Section 3.2 of Annex 11

[141] Financial market participants are required to "make every effort to comply" with the guidelines as per Article 16(3) of Regulation (EU) No 1095/2010 establishing ESMA. One Member State (CZ) has also signalled that they will not apply the guidelines.

[142] See SWD(2018) 264 final, impact assessment accompanying the original SFDR, e.g. sections 2.2.2; 2.3; 3.1; 3.2; 5.1

Regarding coherence with the Omnibus, as mentioned above under the discarded 'no category' option, the argument that the Omnibus revokes the need for the SFDR does not stand up. For one, stakeholders are not requesting it[143]. In fact, the Omnibus invokes the need for a coherent and commensurate revision of the SFDR, both to ensure consistency in the ESG data requirements between the various parts of the overall framework, as well as to allow for better serving the needs of end-investors through shorter and more focused ESG information, something which product categories could better convey (see section 6.3).[144]

Finally, without commensurate changes in other linked parts of the sustainable finance framework, a repeal of the SFDR would render some provisions in these other areas meaningless (e.g. links to SFDR-specific terms in sustainability preferences under MiFID/IDD or in the consideration of sustainability risks and factors under UCITS/AIFMD).

Therefore, a repeal of the SFDR would not be a coherent step in light of the results of the evaluation which shows, at once, continued wide support for its objectives and a clear need to overhaul its technical concepts and requirements, which have led to the problems in Section 2. Nor would it be coherent and consistent with the President's mission letter to Commissioner Albuquerque calling to explore ways to "scale up sustainable finance, in particular transition finance and climate resilience (…), to promote the development and transparent categorisation of financial products and services with sustainability features (… and) to ensure the EU remains a global leader in sustainable finance".[145]

6.2. Measures for alleviating burdens and costs of reporting

6.2.1. Changes to entity-level disclosures

<u>Option 1.1: significant reduction of principal adverse impact disclosures at entity-level</u>

❖ ***Expected benefits and potential drawbacks for data preparers (FMPs)***

Significantly reducing the entity-level disclosures for FMPs and advisers, as outlined in option 1.1, would **lower the costs imposed by the current disclosures**. As set out in Article 6(1) of the SFDR Delegated Regulation, all indicators in Table 1 of Annex I, and at least two additional ones, one from table 2 and one from table 3, must be filled out in each PAI statement when an FMP is either required (mandatory) to prepare a PAI statement or if the FMP decides (voluntarily) to prepare a PAI statement. This amounts to 16 indicators. These disclosures were cited by FMPs in the responses to the public consultations as one of the drivers of the costs imposed by the SFDR[146], especially for FMPs subject to both the CSRD and the SFDR (i.e. subject to duplicative costs). This could also partially **reduce the complexity** by removing indicators that are the most complicated to report against, as described in section 5.

[143] See e.g. relevant results of the call for evidence carried out in May 2025, after adoption of the Omnibus in February 2025, which confirmed a large degree of support for reviewing the SFDR and creating categories, summarised in Annex 2, section 3.
[144] See also Annex 6, section 5 on the interaction between the Omnibus and the SFDR and why a revision, not repeal, of the SFDR is a necessary and coherent step after the Omnibus.
[145] ac06a896-2645-4857-9958-467d2ce6f221_en
[146] Summary Report of the Open and Targeted Consultations on the SFDR assessment, European Commission, May 2024

However, this option only partially reduces the costs associated with entity-level disclosures, estimated to constitute around 25% of the overall recurring costs linked to disclosures and to represent an annual total of EUR 56 million in the baseline scenario[147] (see Annex 3, section 3.10).

❖ ***Expected benefits and potential drawbacks for data users (mainly investors and supervisors)***

While this option reduces the amount of information available to investors, it would continue to allow for end-investors, civil society and supervisors to receive information to assess the sustainability ambition of an FMPs. Such information would allow data users to discern key sustainability related information on the direction of their overall investment policy (e.g. whether they intend to divest from fossil fuels) to inform their choices. This can allow tracking improvements by FMPs in reducing negative externalities in their investments over time and the alignment of the financial products they offer with their entity-level commitments and claims.

While reducing the number of disclosures would mean that data users lose some ESG information, it also means that the investor-facing disclosures would focus on KPIs that are comparable and understandable. This could boost investors' ability to understand and compare the ESG ambitions and policies of FMPs and contribute to fighting greenwashing.

However, there is little evidence that these disclosures are being used by end-investors. The majority of FMPs[148] have questioned the practicality of entity-level PAI disclosures for informed investment decision-making and argued that end-investors focus only on disclosures from specific financial products they might buy. That said, a majority of NGOs expressed support for having such disclosures in the SFDR[149] and NCAs' responses are split[150]. In addition, some research suggests that entity-level disclosures can have a positive impact on how FMPs manage their decarbonisation efforts[151].

❖ ***Overall assessment: effectiveness, efficiency and coherence***

Effectiveness in addressing the specific problems

Reducing the entity-level disclosures would partly help address the difficulties faced by data preparers in implementing the complex rules (problem driver 1) and would slightly reduce the cost (although the impact on cost cannot be assessed precisely as it will largely depend on the number of indicators that would be retained).

However, option 1.1 would only partially fulfil the specific objective of simplifying and reducing administrative burdens as the bulk of the costs and implementation challenges reported by FMPs in implementing the entity-level disclosures is expected to stay the same. While the amount of ESG issues to track would be reduced, FMPs would still need to have processes in place to monitor the

[147] I.e. c.25% of the estimated EUR 246 million in total annual recurring costs

[148] When asked whether the SFDR should set entity-level disclosures, 52% (94 out of 182) responded 'not at all' or 'not really' and 21% (39 out of 182) responded 'mostly' or 'totally'. The rest responded 'partially' or 'don't know', European Commission, Summary Report of the Open and Targeted Consultations on the SFDR assessment, May 2024

[149] When asked whether the SFDR should set entity-level disclosures, 19% (6 out of 32) responded 'not at all' or 'not really' and 59% (19 out of 32) responded 'mostly' or 'totally'. The rest responded 'partially' or 'don't know'. Summary Report of the Open and Targeted Consultations on the SFDR assessment, May 2024

[150] 29% (4 out of 14) responded 'not at all' or 'not really' and 36% (5 out of 14) responded 'mostly'. The rest responded 'partially' or 'don't know'

[151] The research 'Can SFDR entity level reporting enhance sustainability performance?' from Andreas G. F. Hoepner, Tushar Saini & Fabiola I. Schneider presents the following findings: *"disclosure appears to indeed result in noteworthy improvements in some key indicators such as corporate Scope 1 greenhouse gas (GHG) emissions or sovereign GHG emissions intensity (median -5% and -6%, respectively)"*

possible adverse impact of all their assets under management. In addition, the cost of reporting on the possible adverse impacts of all assets is expected to increase as a result of the omnibus proposal, as FMPs are likely to have access to less publicly available data and will need to use estimates. These estimates are either generated internally or bought from third-party data providers, imposing additional costs in both cases[152]. These estimates are typically derived from information obtained directly from investee companies, supplemented by additional research, collaboration with third-party data providers or external experts, or the use of reasonable assumptions.

Option 1.1. is not expected to impact the end-investors' ability to understand and compare ESG products. However, option 1.1. does allow for higher levels of protection against greenwashing compared to option 1.2. as it allows data used to assess the alignment of the financial products offered by FMPs with their entity-level commitments and claims.

Efficiency (costs)

As noted above, this option only partially reduces the costs associated with entity-level disclosures. These are estimated to constitute around 25% of the overall costs linked to disclosures and to represent an annual total of EUR 56 million in the baseline scenario (see Annex 3, section 3.10). Therefore, this option could be estimated to save less than half of this amount, i.e. less than EUR 28 million.

Coherence

Changes to entity level disclosures do not have a direct impact on the coherence between the SFDR and the rest of the sustainable finance framework (problem driver 2). In fact, the interactions between the SFDR and other sustainability-related financial regulation mainly related to the SFDR product level disclosures which interacts with other disclosures, labels and the distribution rules.

The only relevant interaction is with the CSRD reporting obligations which duplicate the SFDR entity-level disclosures for certain actors (i.e. the roughly 400 FMPs that are subject to both the CSRD and the SFDR today). Without a reduction in the personal scope of the entity level requirement under SFDR to match the future CSRD and a full operational alignment between the (future, post-omnibus) ESRS and reduced SFDR PAIs, Option 1.1 would not address the existing duplications.

<u>Option 1.2: deletion of principal adverse impact disclosures at entity-level</u>

❖ ***Expected benefits and potential drawbacks for data preparers (FMPs)***

Option 1.2. would considerably reduce the implementation costs associated with the SFDR by deleting all entity-level disclosures (i.e. 16 mandatory indicators). FMPs would only be asked to generate detailed product level disclosures for their ESG products, and not to assess and disclose the potential adverse impacts of all their assets. Removing disclosures linked to the 16 mandatory indicators would reduce the implementation costs associated with the SFDR. Only FMPs subject to the CSRD would need to assess the ESG impact of all their assets under management.

[152] Market practices in generating estimates vary. The ESAs provided guidance on how to generate these for PAIs (Article 7 of SFDR delegated regulation) and for Taxonomy reporting (Q&A VII.1.1). These estimates are usually built from information either directly obtained from investee companies or by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions.

No potential drawbacks for data preparers were identified. FMPs outside the CSRD scope who wish to continue to report entity-level information would still have the option to do so under the future voluntary sustainability-information standards under the revised CSRD.

❖ ***Expected benefits and potential drawbacks for data users (mainly investors and supervisors)***

Deleting entity-level disclosures on adverse impacts could risk creating a gap in terms of ESG information from economically relevant FMPs that often innovate or pursue long-term investment strategies, and which can inform supervisory oversight of transition risks. This could hinder e.g. tracking (i) improvements in reducing negative externalities of FMP investments over time, and (ii) alignment of financial products with FMPs' commitments and claims. Based on reporting figures from 2024, roughly 1650 FMPs (around 160 investment firms, 430 banks, 200 pension funds, 330 insurance and 530 asset management) provide entity-level disclosures. 430 are doing it on a mandatory basis[153]. Under option 1.2., the majority of these FMPs would be exempted from such disclosures under option 1.2. However, the largest FMPs (and therefore arguably the most impactful ones) would continue to disclose sustainability information under the CSRD and FMPs outside the CSRD scope could continue to report on a voluntary basis.

❖ ***Overall assessment: effectiveness, efficiency and coherence***

Effectiveness in addressing the specific problems

Option 1.2. addresses many of the difficulties faced by FMPs in coping with the lengthy requirements and the costs associated with the lack of publicly available ESG data (problem drivers 1 and 3). FMPs would not need to assess the potential adverse impact of all their assets under management anymore, as the SFDR would focus on the ESG assessments and disclosures for products making ESG claims. Option 1.2 would therefore fulfil the specific objective of simplifying and reducing administrative burdens. The largest FMPs would still need to disclose ESG entity level disclosures under the CSRD but would not be subject to duplicative obligations anymore which would lower the burden. The upcoming reduction of the number of indicators to be disclosed under the CSRD would further reduce the burdens for these entities.

In addition, this option is not expected to impact end-investors' ability to understand and compare ESG products. There is a trade-off whereby end-investors and distributors would be less able to track the alignment of financial products offered by FMPs with their entity-level commitments and claims which might lower investors' protection against greenwashing regarding FMPs' ESG claims made at the entity level. However, as stated before, there is little evidence that end-investors or distributors make use of entity-level SFDR information in this way.

Efficiency (costs)

This option would largely cancel out the costs associated with entity-level disclosures compared to the baseline scenario, estimated to constitute around 25% of the overall costs linked to disclosures and to represent an annual total of EUR 56 million (see Annex 3, section 3.10). Based on the analysis in Annex 3, the bulk of the cost reduction is estimated to benefit SMEs (in aggregate, EUR 43 million) while the rest (EUR 13 million) would benefit larger FMPs.

[153]According to the ESAs Annual Report to the Commission under Article 18 of Regulation (EU) 2019/2088: JC 2024 68 Report on the Principal Adverse Impact disclosures under the Sustainable Finance Disclosure Regulation

Coherence

Option 1.2. would remove the duplications between the SFDR and the CSRD. This option ensures that future entity-level sustainability-linked reporting requirements are set in a comprehensive, cross-sectoral and coherent way in the ESRS and without scope for sector-specific additional requirements that would risk duplications or excessive complexity. For those FMPs outside the CSRD scope who so wish, options to disclose entity-level information would be based on future provisions under a revised CSRD for a voluntary sustainability-related information standard, envisaged in the shape of a delegated act based on the VSME standard developed by EFRAG[154].

Comparative assessment of option 0, option 1.1 and option 1.2 impacts

Legend: +++ = Very positive ++ = Positive + = Slightly positive +/- = Mixed effect 0 = no effect - = Slightly negative -- = Negative --- = very negative

	Option 0	Option 1.1	Option 1.2
Effectiveness:			
In simplifying and reducing the sustainability related requirements for FMPs			
	FMPs would not be required to disclose ESG information at entity level (apart from those subject to the CSRD). +++	FMPs would have to disclose less ESG information, but the bulk of the cost related to entity-level ESG analysis and research would remain. In addition, FMPs not covered by the CSRD would still need to comply with entity-level disclosures, hindering the coherence of the framework. +	FMPs would solely be subject to product level disclosures under the SFDR. This means that FMPs in scope of both the SFDR and CSRD would not be facing duplicating reporting anymore and that FMPs not subject to CSRD would not have to comply with entity-level disclosures anymore. +++
In improving end-investors' ability to understand and compare ESG products			
	End-investors would not receive information about the overall sustainability performance of FMPs outside the CSRD scope. However, they will continue to get this information from the largest FMPs, assumingly the most impactful ones. As opposed to option 1.2, a repeal would also negatively impact end-investors' understanding of specific products they might buy. -	End-investors would continue to receive information on the overall sustainability performance from many FMPs. This can help investors understand entity-level ESG commitment. However, this does not impact end-investors' understanding of specific products they might buy. +/-	End-investors would not receive information about the overall sustainability performance of FMPs outside the CSRD scope. However, they will continue to get this information from the largest FMPs, assumingly the most impactful ones. As opposed to option 0, this option does not in itself impact end-investors' understanding of specific products they might buy. +/-
Overall effectiveness	+/-	+	++
Efficiency	Removes any costs linked to entity-level ESG disclosures but subjects all SFDR investments to new uncertainty.	Only partially reduces the cost described in Annex 3.	Removes any costs linked to entity-level ESG disclosures.

[154] Omnibus proposal COM (2025)81 final

	+/-	+	+++
Coherence	The duplication with the CSRD is eliminated, but new coherence problems would emerge with the Omnibus, ESMA guidelines, national rules, and the rest of the sustainable finance framework. ---	The interactions and duplications between the SFDR and CSRD remain unchanged. 0	The duplication with the CSRD is eliminated. CSRD would be setting all entity-level disclosures throughout the framework while the SFDR would focus solely on financial products. +++

Stakeholders feedback

The overwhelming majority (89%) of consultation-respondents consider that the objective of the SFDR to strengthen transparency through sustainability-related disclosures in the financial services sector is still fully relevant and over 90% consider that this should be done at EU-level[155].Overall, the demand for sustainable investment opportunities among investors also remains high[156]. Therefore, stakeholder feedback does not favour a repeal of the SFDR.

Views of responding stakeholders in the public consultations were split on whether the SFDR is the right place to set entity-level disclosure requirements for FMPs and financial advisors, especially across the different stakeholder groups. As stated above, most FMPs and financial advisers responded that they do not consider the SFDR the right place to include entity-level disclosures[157], while a majority of NGOs expressed support for having such disclosures in the SFDR[158]. NCAs' responses were split[159]. Responses to the call for evidence[160] were largely in favour of deleting the entity level disclosures, with a small minority of stakeholders expressing preferences for keeping a small set of indicators.

Respondents' views on the usefulness of the three sets of SFDR entity-level disclosures were also split. Disclosures concerning sustainability risk policies gathered the highest level of support, with 49% (138 out of 280) of respondents finding them 'totally' or 'mostly' useful, while 15% (41 out of 280) responded 'not really' or 'not at all'. Opinions are less definitive on disclosures regarding adverse sustainability impacts[161] and remuneration policies[162].

[155] See also above in Section 3.2 "Subsidiarity: Necessity of EU action", in Annex 2 on stakeholder feedback, and Section 3.2 of the evaluation, Annex 11 "How relevant is the SFDR".
[156] See Annex 10
[157] 52% (94 out of 182) responded 'not at all' or 'not really' and 21% (39 out of 182) responded 'mostly' or 'totally'. The rest responded 'partially' or 'don't know'.
[158] 19% (6 out of 32) responded 'not at all' or 'not really' and 59% (19 out of 32) responded 'mostly' or 'totally'. The rest responded 'partially' or 'don't know'.
[159] 29% (4 out of 14) responded 'not at all' or 'not really' and 36% (5 out of 14) responded 'mostly'. The rest responded 'partially' or 'don't know'
[160] Feedback gathered during the Call for Evidence which ran from 2 May to 30 May 2025.
[161] 31% (86 out of 281) responded 'totally' or 'mostly' and the same amount responded 'not really' or 'not at all'. The rest responded 'partially' or 'don't know'
[162] 39% (108 out of 278) responded 'totally' or 'mostly' and 26% (73 out of 278) responded 'not really' or 'not at all'. The rest responded 'partially' or 'don't know'

Other economic, social, environmental and fundamental rights impact

In general, companies that are required to report against standards have to identify and report on their most significant non-financial risks, dependencies and impacts, and explain how they manage them. This discipline may have an indirect beneficial effect on the environment, society and fundamental rights, to the extent that it affects company decisions and the way companies behave. Options 0 and 1.2 could be expected to have detrimental impacts in this regard. There is, however, mixed evidence about the extent to which reporting requirements on their own will induce companies to mitigate and avoid their negative impacts, especially in comparison to policies and regulations that effectively price negative externalities[163].

It is therefore not possible to ascertain the concrete relative merits of the options presented in terms of material social, environmental and fundamental rights impacts. Option 0 could arguably be seen as a more drastic move to roll back sustainability-related legislation, which could lead to more detrimental impacts in this regard, whereas option 1.2 would more likely be seen as a targeted move to remove inconsistencies and duplications in the framework, with fewer knock-on effects of this type. In addition, the specific impact of option 1.1. would largely depend on the indicators in the Level 2 regulation that would be removed and the indicators that would be retained. If this option were pursued, this would be best done in a secondary assessment when preparing the amended Level 2 text. Finally, the biggest FMPs (which are assumed to be the most impactful) would still be in scope of the CSRD and would therefore continue to report on social, environmental and fundamental right issuers. The impacts of options 1.1 and 1.2 are therefore expected to be limited[164] while those of option 0 could be broader, as mentioned.

The impact on the international competitiveness of EU companies is also expected to be limited, although, under option 1.1 compared to options 0 and 1.2, some additional costs would continue to be incurred by EU companies subject to the SFDR entity-level disclosures compared to non-EU companies. However, non-EU companies distributing products in the EU that are disclosing under the Articles 8 or 9 would continue to be expected to comply with the SFDR entity-level disclosures under option 1.1.

6.2.2. Changes to product-level disclosures

Option 2.1.: minimal changes to product-level disclosures

This option would broadly maintain the same approach as the current disclosures and would work better with categories that rely on existing concepts.

❖ ***Expected benefits and potential drawbacks for data preparers (FMPs)***

Option 2.1. would address some of the implementation issues faced by data preparers by clarifying certain concepts underlying the product-level disclosures. For example, the specific disclosures required under the concept of consideration of principal adverse impacts would be clarified, removing some of the compliance challenges faced by the market today.

[163] CEPS Study on the Non-Financial Reporting Directive, April 2021

[164] Further, the relative impact on sustainability-oriented investments of options 1.1 and 1.2 are also muted, in any case, by the continued likely demand for sustainable investment opportunities by investors and asset owners. See e.g. a 2024 Morgan Stanley survey of 900 institutional investors across North America, Europe and Asia Pacific in July and August 2024 where nearly 90% said sustainable investing activities are driven by client and external stakeholder demands with around 80% expecting sustainable assets to increase over the next two years (Morgan Stanley Sustainable Signals Survey Aug 2024 Results | Morgan Stanley, December 2024).

However, the length and the complexity of the disclosures would remain. Data prepares would continue to face difficulties in implementing the complex rules and in gathering the extensive data needed from underlying investments. They are likely to continue to devote as much resources as they do now. In addition, data preparers would not be given a standardised method to disclose information about transition-related objectives and investments, i.e. there would be no recognition of transitional assets or strategy in the standardised questions of the templates.

Expected benefits and potential drawbacks for data users (mainly investors and supervisors)

Option 2.1. would preserve the variety in the range of datapoints in order to inform investors on many different sustainability-features of products. In addition, the targeted changes to some concepts such as 'promotion of ESG characteristics' or 'consideration of principal adverse impacts' would increase the comparability of the disclosures linked to these concepts.

However, the disclosures would continue to be very lengthy and to rely on complex and technical concepts which are not easily understandable by all investors, especially by retail investors.

❖ ***Overall assessment: effectiveness, efficiency and coherence***

Effectiveness in addressing the specific problems

Option 2.1. would allow for minimal disruptions while partly simplifying and reducing the requirements for financial markets (problem driver 1). Targeted changes would simplify and clarify some of the complex ESG concepts such as the ones under the Article 7, 8 and 9 (e.g. consideration of principal adverse impacts and ESG characteristics). However, option 2.1. would not materially reduce the amount of data points that need to be generated by data preparers and would not address the difficulties they encounter when trying to access the necessary data from underlying investments (problem driver 3). It would therefore not fulfil in a satisfactory way the specific objective of simplifying and reducing administrative burdens.

This option would also only partly satisfy the specific objective of improving end-investors' ability to understand and compare ESG products. The length and complexity of the disclosures has been proven to be a barrier to investors' (especially retail investors') understanding (further explained in section 2 and the evaluation annex). While comparability would be increased as a result of the clarification of some concepts, investors would continue to be exposed to unnecessarily extensive sustainability information and, as a result, would not be more likely to understand the key sustainability features of products and would therefore not increase their protection against potentially misleading ESG claims.

Efficiency (costs)

This option is not expected to materially reduce the costs associated with product-level disclosures in the baseline scenario, estimated to constitute around 75% of the overall annual recurring costs linked to disclosures and to represent an annual total of EUR 190 million (see Annex 3, section 3.10)[165].

Coherence

There are multiple interlinkages between the SFDR product level disclosures and the rest of the sustainable finance framework, as described in Annex 6. However, minimal changes that would be

[165] C. 75% of EUR 246 mn

restricted to clarification of certain terms would not have a considerable effect on the coherence with other rules. More specifically, the misalignments between the SFDR definition of 'sustainable investment' and similar concepts under the EU Taxonomy and the Benchmark Regulation would not be addressed[166].

Some targeted changes might be needed under the definition of sustainability preferences under MiFID and IDD to ensure that the modified SFDR disclosures are reflected in the way distributors assess clients' sustainability preferences.

Option 2.2.: significant reduction of product-level disclosures

As explained in section 5.3.2, the specific content of the disclosures would be largely defined by the type of category chosen and their underlying criteria. As a result, the analysis of the impacts of this option is linked to such criteria (which are analysed under section 6.3.2, i.e. the analysis of the impact of the categories) and described in section 5.4 and annex 8.

❖ ***Expected benefits and potential drawbacks for data preparers (FMPs)***

Option 2.2 is expected to considerably cut costs for FMPs and give them more flexibility in the way they can assess and explain the sustainability characteristics or objective of their products. Instead of having to comply with a generic set of questions, relying on complex and data-intensive concepts, FMPs will be able to focus on a shorter number of relevant metrics. The information is however presented in a standardised format through shorter templates. By introducing more extensive cuts to requirements estimated to account for 75% of the costs of the current regime (see also under 'efficiency' below), the burden reduction would be expected to be higher than 25%, moving away from the set of about 25 questions to a few indicators and a short template for FMPs to prove their criteria.

The main drawbacks for data preparers would be linked to the transition costs and potential 'lost' implementation efforts and costs from the implementation of the current reporting approach.

❖ ***Expected benefits and potential drawbacks for data users (mainly investors and supervisors)***

The set of disclosures would be shorter, more comparable, and relevant based on a product's key sustainability objectives or characteristics. As a result, while end-investors and distributors would lose some information compared to today's situation, as the templates would not cover the wide range of SFDR sustainability concepts for all products anymore, they would have access to much more relevant and consistent information. Shorter and standardised templates containing the disclosures around the criteria are expected to give end-investors and distributors a much better sense of the levels of ambition of each product, and allow for an easier comparability of the information across products.

In addition, option 2.2. would rely on a terminology that would be much more understandable by non-experts. The language used by FMPs would move away from technical jargon such as 'consideration of principal adverse impacts', and would instead focus on sectoral exclusions, basic ESG KPIs and a simple explanation of the objective to which the financial product contributes or its main ESG characteristics (e.g. additional exclusions, filters based on best performers etc).

[166] See an explanation of these misalignments in the evaluation annex under the coherence section 3.1.2. '*misalignments with environmentally sustainable economic activities' under the EU Taxonomy'* and *'misalignments with the Benchmarks Regulation'*.

❖ ***Overall assessment: effectiveness, efficiency and coherence***

Effectiveness in addressing the specific problems

Option 2.2 would tackle challenges linked to the complexity of the current rules and to data availability (problem drivers 1 and 3) and largely simplify and reduce the sustainability related disclosure requirements for financial markets and therefore fulfil the specific objective of simplifying and reducing administrative burdens. First, the disclosures would rely on simpler and clearer concepts (as described in section 6.3) which are less data intensive. For example, instead of analysing the performance of a financial product against a large amount of sustainability concepts (such as the consideration of principal adverse impacts, the alignment with the EU Taxonomy criteria etc), FMPs will be able to focus their sustainability assessment and reporting on metrics that are relevant to their products. The data points to be reported would be significantly reduced.

Option 2.2 would also largely satisfy the specific objective of improving end-investors' ability to understand and compare ESG products by setting up shorter, simpler and adequate disclosures based on the products' features. The categorisation of the product would reveal its main key features providing investors and distributors with the essential reassurance of what it aims to achieve, minimising the need for additional disclosures which can overwhelm investors. These disclosures are also expected to be more comparable, enabling investors to easily compare products that fall under the same category. The length of the reporting templates would be considerably shortened and would focus on what is relevant for an end-investor decision making.

Efficiency (costs)

Compared to option 2.1, this option is assessed to help reduce a far greater share of the costs associated with product-level disclosures in the baseline scenario, estimated to constitute around 75% of the overall costs linked to disclosures and to represent an annual total of EUR 190 million. Based on the analysis in Annex 3, in spite of some initial one-off adjustment costs, a conservative estimate of the long-run cost reduction for SMEs in aggregate could amount to EUR 35 million and to EUR 20 million for larger FMPs.

Coherence

As described under option 2.2, and to overcome misalignments and duplications with other parts of the sustainable finance framework (problem driver 2), any changes to the SFDR concepts and product level disclosures would need to be reflected in other parts of the sustainable finance framework. In fact, a perfect alignment between the SFDR disclosures and the definition of sustainability preferences under MiFID and IDD will be necessary. This would entail amendments to the corresponding delegated acts under MiFID and IDD and for distributors to integrate information on categorisation in their processes. This can induce some initial implementation costs, but which will reduce the burdens on distributors overtime.

The future SFDR product level disclosures would need to be aligned with the CSRD disclosures to facilitate that ESG information required from FMPs is available from CSRD companies. The details of the SFDR disclosures would therefore need to be set in a subsequent level 2 act, following the adoption of the simplified ESRS.

Comparative assessment of the impacts

Legend: +++ = Very positive ++ = Positive + = Slightly positive +/- = Mixed effect 0 = no effect - = Slightly negative -- = Negative --- = very negative

	Option 0	Option 2.1	Option 2.2
Effectiveness:			
In simplifying and reducing the sustainability related requirements for FMPs			
	Removes all product level disclosure requirements. +++	Partly addresses the implementation challenges through targeted changes, but the bulk of the reporting burdens and challenges would remain +	Largely simplifies and reduces the disclosure requirements by reducing drastically the amount of data points and relying on much simpler concepts. +++
In improving end-investors' ability to understand and compare ESG products			
	Removes lengthy and unclear product level disclosures but leaves a regulatory void in terms of structured ESG information or products, increasing search costs and leaving investors dependent on market-based solutions, with possible risks of greenwashing. --	Partly addresses the barriers to investors' understanding and improves comparability. However, it does not address the complexity and length of the disclosures, which prevent investors from easily understanding the disclosures. +	Largely improves investors' understanding and would address the complexity and length of the current templates. +++
Overall effectiveness	+/-	+	+++
Efficiency	Removes any costs linked to product-level ESG disclosures but subjects all SFDR investments to new uncertainty. +/-	Does not materially reduce the costs associated with product-level disclosures (see Annex 3). 0	Reduces a great share of the costs associated with product-level disclosures (see Annex 3) +++
Coherence	Some duplications with the rest of the SF framework are eliminated, but new coherence problems and challenges for the single market would emerge with the Omnibus, ESMA guidelines and the possibility of further national rules. --	No effect on the current interactions between the SFDR and other SF rules. 0	No effect on the current interactions between the SFDR and other SF rules. 0

Stakeholders feedback

The overwhelming support (90%) among of consultation-respondents for better transparency in ESG investing through appropriate sustainability-related disclosures, together with the continued high interest in ESG investment opportunities among investors, is especially relevant to note for product disclosures. The conclusion that stakeholder feedback does not favour a repeal of the SFDR can be re-confirmed.

However, respondents to the public consultations largely agree that changes to the product-level disclosures are warranted. In fact, 84% (249 out of 296) totally or mostly agreed that the disclosures required by the SFDR are not sufficiently useful to investors, and 82% (247 out of 301) that some of its requirements and concepts, such as 'sustainable investment 'are not sufficiently clear for end-investors.

In terms of which KPIs are necessary for end-investors, a large majority of respondents answered that the disclosures should be restricted to key meaningful indicators that are comparable across different markets and asset classes and easily understandable for retail investors. Respondents mostly mentioned climate, diversity and human rights as topics to be covered by the disclosures. Conversely, some respondents, mainly from the NGO sector, suggested that there should be a comprehensive set of disclosures which could include the mandatory PAIs, alignment with the EU Taxonomy, percentage of investments in undertakings with a science-based transition plan, exclusions and engagement.

55% (152 out of 274) of respondents totally or mostly agreed that products with sustainability claims should be required to substantiate their claims with additional disclosure to ensure credibility and prevent greenwashing. While there was no clear consensus about what these qualitative and quantitative disclosures should be, the most cited ones include: sustainability objectives, sustainable investment strategy and associated binding and measurable KPIs, minimum standards of good governance, percentage of sustainable investments and Taxonomy-alignment, decarbonisation targets, percentage of undertakings having a transition plan, applied exclusions, engagement and voting policies and PAIs. Some respondents argued that such disclosures should be set in a flexible manner to align with diverse product investment strategies and to accommodate innovation and evolving market standards. On the other hand, others are of the view that these disclosures should be set by the regulators and be identical for all financial products with sustainability claims.

Lastly, many respondents agreed on the importance of aligning these disclosures with potential product categories and that any changes to the SFDR disclosures would need to be reflected in the MiFID and IDD sustainability preferences rules.

The responses to the call for evidence[167] confirmed that a large majority of stakeholders across the board welcome considerable simplifications to product level disclosures (for example by limiting the number of pages for the pre-contractual document to 2 to 3 pages), focusing on key information for investors regarding e.g. the potential classification of a product and adherence to associated criteria, its main sustainability-linked objectives and strategy, and KPIs for measuring performance.

Other economic, social, environmental and fundamental rights impacts

The other impacts of the options are hard to assess as, aside from the repeal option, they will mainly depend on the KPIs selected at level 2. The repeal option would again be a more drastic withdrawal

[167] Feedback gathered during the Call for Evidence which ran from 2 May to 30 May 2025.

by the EU from setting requirements for sustainability-linked information regarding financial products, which could have more detrimental impacts in terms of real-world ESG outcomes, whereas the other two options suggest keeping the existence of key ESG disclosures for financial products, which will retain the positive indirect impact the SFDR currently has on social, environmental and fundamental rights.

Making these disclosures more efficient, clearer and understandable would result in better information regarding the social, environmental and fundamental rights impacts of financial products. This could in turn attract more private capital into products that have a genuine positive impact, or mitigate better their negative impacts, on these aspects.

6.3. Options for setting up a clear and coherent sustainability-linked product categorisation system

This section follows a two-step approach for the assessment of impacts. First, it assesses the general impact of setting up categories following the approach of option 3.1 and 3.2 (i.e. with new criteria). This step is done to isolate the general impacts of creating new categories and focuses on the similarities shared by option 3.1 and 3.2. The analysis of the impact largely relies on the elements of the criteria described in section 5.4 (see box 3). While details for such criteria will be finalised in Level 2, the key features set in Level 1 allow to conduct a robust analysis of the likely impact of the categories.

As a second step, we conduct a simultaneous assessment of the three options to differentiate their relative benefits and costs and to highlight their contribution to the specific objectives while clearly distinguishing the extent of these effects.

6.3.1. Main benefits and potential drawbacks of setting up new categories under option 3.1 and 3.2

Setting up voluntary categories accompanied by a clear set of new criteria (instead of relying on existing complex SFDR concepts) **would ease the implementation burden over time.** The different layers of requirements described in the evaluation (Annex 11) would be simplified and streamlined and would be more adaptable to the different objectives or strategies used. In addition, the criteria would provide legal certainty by replacing the central SFDR concepts which have proven to be difficult to apply with clear ESG requirements based on market practice pursuant to the ESMA guidelines (e.g. simple exclusion list instead of a list of indicators to 'consider') (problem drivers 1 and 2). The new approach to the criteria would also be less data intensive and allow FMPs to focus on the ESG topics that they find most relevant to their products (problem driver 3). The clarification of the requirements attached to the categories would also favour the alignment of regulatory expectations from NCAs, facilitating their oversight, and would alleviate the need for long disclosure templates thanks to the shorter format of the disclosures. All these benefits would ultimately lead to less burdens and costs in the long run through clearer and simpler criteria. The costs of estimates are minimised through the use of sustainability data points for which estimation is possible (e.g. which are binary or where using sectoral and geographical averages is possible) and where market practices are well established.

The introduction of formal categories relying on criteria would induce an initial implementation cost. However, the suggested criteria would build on the criteria introduced by the ESMA guidelines on fund names[168]. There are currently approximately 4,220 investment funds in scope of these guidelines, meaning that these products have already borne the initial cost of applying such

[168] Annex 6 provides a description of the criteria of the ESMA Guidelines

criteria[169]. Annex 8 describes in more detail the specific impacts of the ESMA guidelines on funds using ESG terms in their name, which started applying as of 21 May 2025. For products outside the scope of ESMA guidelines (i.e. insurance and pension products), mitigating measures could be established to soften the implementation costs for those willing to voluntarily use the product categories, via for example a phase-in of the new rules (i.e. FMPs could still apply the current framework for some time). In addition, a grandfathering clause could be applied for existing close-ended funds that could not feasibly amend their portfolio to fit the required criteria.

The set up of categories would also have the potential to drastically simplify and improve the investors' journey and enhance their protection against misleading ESG claims, **the extent of which would depend on the potential market coverage of the categorisation system chosen, i.e. whether all products making ESG claims would need to comply with EU minimum criteria**. As described in the problem definition, investors are currently misled by the use of the disclosure articles as a self-categorisation system by the market (problem driver 4). Setting up categories with clear minimum ESG requirements would improve the comparability of categorised products and would enhance the understanding of products' main ESG objectives. The mandatory minimum criteria would also ensure minimum ESG performance and ambition and lead to enhanced trust and confidence in products that are categorised and reinforcing the protection of investors against misleading or false ESG claims for categorised products.

Of course, an important consideration to be added is that there is no 'one size fits all' on how to granularly define what a positive contribution to a sustainability objective should be. This is mainly due to the wide variety of assets, strategies, sustainability objectives that exist in the current market, and which it is important to continue fostering to support innovation and competitiveness. The suggested criteria ensuring harmonised levels of contributions and common exclusions favour continuity with those market practices and the lates updates to the regulatory framework[170]. As acknowledged at the start of section 5, there is a trade-off between relying on less data to inform categories and investors on the one hand, and possible concerns of greenwashing on the other. However, to balance the objectives of simplification and comparability, support for innovation and investor protection, a choice needs to be made how and on what basis to cluster and capture products in order to convey their main ESG features. The key is to ensure this is done on the basis of data that is both available to a large degree, possible to estimate without excessive effort in case it cannot be derived directly from investees, and is proven to be the most decision-useful for investors, based on their preferences when investing in sustainability-related financial products. Thus, in pursuing the objectives in section 4 in order to ensure coherent, effective and efficient outcomes, while on the one hand the risks of greenwashing for investors cannot be totally excluded, they are minimised through compliance by FMPs with the minimum criteria for ESG product categories and accompanying disclosures including the performance of the product against the objective they have contributed to based on credible, and where possible science-based, indicators. Investors would have a defined dataset, more discrete and less sprawling and overwhelming, to help inform choices and compare products. They could more easily identify where products provide additional datapoints of interest to them, on top of the minimum criteria, facilitating switching between products and providers.

Finally, there are certain limitations to note in how far the categorisation would incentivise prospective investee companies to improve ESG performance. This impact assessment, including the articulation of the problems and specific objectives, primarily looks at the relationship between the end-investor and the financial intermediary, the subject matter of the SFDR. Many other factors

[169] Morningstar, ESMA Guidelines on ESG Funds' Names, May 2025
[170] ESMA Guidelines on Funds' Names May 2025

besides better transparency, information symmetry and greater comparability in this relationship determine overall market outcomes in terms of efficient capital allocation in the real economy. The initiative therefore needs to be seen in tandem notably with steps towards the Savings and Investments Union, which are beyond the scope of this impact assessment, to fully achieve the general objectives.

6.3.2. Comparative assessment of Option 3.1, Option 3.2 and Option 3.3

Options 3.1, 3.2, 3.3, mostly differ by their market coverage size, their treatment of transition finance, and their underlying criteria. These distinct features entail important differences in the role that the categories could play for retail investors and in the wider framework, especially regarding the marketing and distribution rules (as described in section 5). This leads to important differences in terms of achieving the specific objectives of the review.

Legend: +++ = Very positive ++ = Positive + = Slightly positive +/- = Mixed effect 0 = no effect - = Slightly negative -- = Negative --- = very negative

Specific objective 1: the extent to which the categories simplify and reduce sustainability related requirements for FMPs and enhance coherence		
Option 3.1	The categories would **bring coherence and provide FMPs with one common EU set of rules** for products making ESG claims and/or be distributed to retail investors with sustainability preferences across the EU. They would help overcome different expectations from NCAs which are taking different approaches to regulate ESG claims, on top of requirements to adhere to the ESMA guidelines when making ESG claims in the name of funds (not covering all products within the SFDR scope however nor marketing documentation). The different sets of rules depending on where the claims are made and on the jurisdictions would be harmonised. Under this approach, the criteria of the categories could be used to define the extent to which a product can make ESG claims to investors and would **harmonise the national regulatory and supervisory expectations, thereby addressing the current uncertainty regarding SFDR compliance.** However, it is important to note that the categories would be voluntary, therefore FMPs could still include ESG information on regulatory documentations of non-categorised products without having to comply with EU categories and applicable criteria[171]. Disclosures linked to categorised products would be shortened and focused on ESG information which is more readily available. In addition, this option would keep a broader scope (i.e. of the options, three categories could cover the most products disclosing under Article 8/9), **ensuring the highest levels of continuity** in terms of the marketing communication and names of products**.** The categories could also provide for a very **useful tool for operators in charge of assessing the sustainability preferences of clients and defining the target market** under MiFID and IDD. Instead of relying on complex and poorly comparable disclosures, distributors could use the three clusters to easily identify suitable products and would also have access to more granular information through the product disclosures.	+++

[171] E.g. a technology-focused fund could nonetheless include information on sustainability targets, or exclusions of certain sectors or activities based on ESG grounds.

	Finally, the transition category would equip FMPs with suitable criteria according to inclusive and well-established metrics (and accompanying disclosures linked to ESG data which is available and reliable) for products contributing to the EU transition to a greener and fairer economy. The criteria for the new transition category would not be disruptive as they reflect market practice pursuant to the ESMA guidelines, and will continue to be supervised by national supervisors[172].	
Option 3.2	The narrow scope of this option means that both categorised and non-categorised products could make ESG claims (i.e. FMPs would be allowed to make ESG claims in marketing documentation and names on non-categorised products). It would not limit the right to make ESG claims to the products making a direct positive contribution to sustainability or transition objectives due to the small portion of market that would be covered. However, for non-categorised ESG products, FMPs are still **likely to face different sets of rules depending on the type of products or depending on national rules.** While this option would set criteria for fewer products (although a part of the non-categorised products would likely still be subject to the ESMA guidelines), it would also **not address the differing regulatory expectations** in the supervision of ESG non-categorised products. This option would also only partly support the distributors in the implementation of the sustainability preferences of clients under MiFID and IDD. Operators would still need to rely on disclosures for all non-categorised products with ESG features. Like option 3.1, the transition category would ease the implementation of the regime for products with transition-related products, following ESMA guidelines.	+
Option 3.3	This option would largely affirm the practice in the market of treating Article 8 and 9 as de facto categories, namely for 'sustainable' and 'other ESG' products. It would entail maintaining the existing sustainability concepts deemed complex and confusing to FMPs. Therefore, the simplification potential of option 3.1 and 3.2 (described in section 6.3.1) would not apply to option 3.3. **FMPs would continue to face complex and unclear rules when applying the existing articles as categories. Gold-plating practices are also likely to continue**, as NCAs could be expected to continue to refine national approaches to act on greenwashing concerns in the absence of clear harmonised EU criteria. Coherence with the rest of the framework would also be largely unchanged, i.e. the misalignments between the SFDR definition of 'sustainable investment' and similar concepts under the EU Taxonomy and the Benchmark Regulation would not be addressed[173]. No distinct category to promote transition investments would be set up[174]. This option could be seen, however, as less disruptive, as the bulk of the existing	+/-

[172] Funds using "transition"-related terms e.g. "transitioning", "transitional" etc. and those terms deriving from "improve", "progress", "evolution", "transformation", "net-zero" etc. already apply the criteria for portfolio level exclusions and a requirement for 80% of investments to align with the overall strategy, entailing little change for them.

[173] See an explanation of these misalignments in the evaluation annex under the coherence section 3.1.2. '*misalignments with environmentally sustainable economic activities' under the EU Taxonomy'* and *'misalignments with the Benchmarks Regulation'*.

[174] Contrary to the preference expressed in the consultation, where 72% of respondents were in favour of a transition-category (see Annex 2) and in consumer studies where global investors signal a strong preference to understand companies' sustainability and decarbonisation commitments when making investment decisions (see Annex 10 'Specific sustainability objectives/themes').

	'criteria' would be retained. The categories might integrate the minimum safeguards of the ESMA guidelines but would largely remain aligned with the current content and principles of Articles 8 and 9.	
Specific objective 2: the extent to which the categories improve end-investors ability to understand and compare ESG products		
Option 3.1	The categories would largely **simplify the investment journey** of end-investors by **providing a coherent and harmonised set of criteria** that all products making ESG claims need to comply with, regardless of where they are marketed**.** All investors could trust that any products making prominent ESG claims are complying with robust and harmonised EU minimum safeguards and criteria. End investors would also see which category a product belongs to and could very easily understand their sustainability objectives and levels of ambition. The three groupings can offer a clear picture to investors regarding the type of ESG products available and how they differ. For example, contrary to the situation today, investors would have upfront reassurance whether a product can have significant fossil fuel exposure (transition category) or not (sustainable category), and that they cannot invest in assets linked to questionable human rights records (all categories). This would avoid having to read the details behind products, would mitigate negative surprises and make it **easier for investors to compare all ESG products both within a category and between them.** In addition, providing the possibility that all ESG products are categorised (and therefore comply with EU criteria) would do away with the need for lengthy disclosures. In fact, categories would ensure **higher levels of investors protection** through minimum safeguards and by removing the need for investors to go through complex and lengthy disclosures to understand the ESG features and ambitions of products. By establishing the key parameters for products to be categorised as either sustainable, transition or other ESG, supported by the need to demonstrate progress toward or alignment with the objectives by way of indicators, but without specifying ex ante in the Regulation exactly how FMPs are to set and meet these objectives, investors would have upfront reassurance that products in each category deliver what they claim to do, while not over-regulating the matter and stifling product innovation. It will be imperative that the name of the categories correctly reflects their respective levels of ambition and type of criteria. It is important that end-investors understand the differences between products that are mainly focused on sustainable assets (sustainable category), ones which focus on assets helping the transition of various economic sectors (transition category), and products that are applying much lighter ESG criteria (other ESG category). If this distinction if not made clear, end-investors could be misled in thinking that all categorised products offer the same levels of ESG performance.	+++
Option 3.2	On the one hand, end-investors would be able to easily identify the most ambitious products in the market. The adherence to a category would be made visible, and retail investors interested in sustainability would be easily directed towards products with genuine positive contribution. On the other hand, there would be no minimum safeguards for a large portion of products making ESG claims. **The investor protection against misleading claims from non-categorised products would not**	+

	be increased compared to today's situation. These risks could be mitigated by the ESG disclosures that could be imposed on non-categorised products making ESG claims. In addition, certain ESG terms could be restricted for non-categorised products (for example, 'sustainable', 'transition' etc). The extent to which FMPs would be allowed to communicate on ESG elements in the marketing documentations of non-categorised products could also be limited (e.g. no more than x% of their marketing materials). However, such additional disclosures would work against the first objective of overall simplification and burden reduction. It is also doubtful that end-investors (more particularly retail) would effectively be aware of and appreciate the differences between an ESG categorised and an ESG non-categorised product and could therefore align their expectations accordingly. As a result, **their ability to understand the differences in claims between categorised and non-categorised products, and notably compare ESG non-categorised products, would remain limited.**	
Option 3.3	This option would not have a strong impact on the extent to which end investors can understand and compare ESG products, largely perpetuating today's situation. In addition, the lack of transition category would not enable investors to easily identify those products and might prevent investors from properly comparing products if criteria/disclosures for transition products are not implemented.	+/-

❖ ***Relative efficiency (costs)***

Expected costs and benefits of option 3.1 and 3.2

Assessing the cost-efficiency of creating categories is more difficult compared to assessing the cost-efficiency of changes to SFDR disclosures. Disclosures are part of the requirements today, for which cost estimates under the baseline scenario are available (Annex 3), whereas categories are not.

First, estimating the initial one-off costs associated with the setup of new categories by engaging with FMPs has yielded limited data. These suggest initial one-off costs for a single FMP starting as of EUR 30 000, with others suggesting one-off costs in the range of EU 60 000 to EUR 500 000. This is mainly because, at this preparatory stage of policy development, FMPs do not have clarity on the type of criteria that would accompany these categories yet.

In addition, estimates also differ on the size of recurring costs associated with categories. Some expect this to represent 5-10% of initial one-off costs. However, the recurring costs with categories would be expected to be lower than the recurring costs of the current SFDR in the longer term due to the following factors:

(1) The rules are expected to be much clearer and to limit gold-plating which would result in less compliance costs linked to uncertainty and to applying different national regimes.

(2) The criteria would build on elements that are already being applied by some financial products under other regulatory pieces (i.e. all funds subject to the ESMA guidelines on

funds names would not need to bear the one-off implementation cost again[175]). As mentioned above, the criteria could be phased in for others (insurance and pensions products). Option 3.1 and 3.2 suggest removing some existing requirement under the SFDR while building on some of the rules under the ESMA guidelines, which should lead to cost reduction for FMPs currently subject to both.

(3) The criteria would be less data intensive and would allow FMPs to focus on a reduced number of datapoints. In addition, these criteria would better reflect, in a far more cost-effective way, the availability of data in the post-omnibus landscape. Categories are thus an effective and efficient way to overcome data gaps compared to today's baseline scenario in which SFDR disclosures would continue to hinge on access to data which is less likely to be available.

As outlined in section 5.3, the categories would also not involve changes to supervisory costs, nor entail new external verification costs for FMPs, which could otherwise have negative impacts on efficiency. Categories and associated reduced product disclosures also help investors to benefit from data which is more meaningful, decision-relevant and entails lower search-costs – and therefore more efficient from their perspective.

Finally, the costs reported by FMPs should be offset against the savings achieved from reduced disclosures. Given the uncertainty of costs related to categories vs. the availability of cost-estimates for disclosures, it is however not possible to arrive at a reliable estimate of the net figure at this stage. Annex 3 sets out a rough indication suggesting that there could be some initial one-off costs notably for FMPs which are SMEs which choose to be active in offering ESG products, which could however be offset in the long-term by corresponding cost savings. Given scale-effects, one-off costs for larger FMPs are assessed to be far more limited and which could be quickly offset (after about 2 years)[176].

Expected costs and benefits of option 3.3

Option 3.3 (minimum changes) is not expected to entail significant changes to costs (negative or positive). Low initial one-off costs are to be expected, and the current high recurring costs should remain very similar, although targeted changes to the existing sustainability concepts could slightly reduce these.

❖ ***Relative other economic, social, environmental and fundamental rights impacts***

Under option 3.1, categories would imply that a larger number of products would apply EU minimum safeguards, which is expected to have an indirect positive impact on social, environmental and fundamental rights (although the new minimum safeguards would cover fewer sustainability aspects than the current DNSH, but these often relate to factors which are not considered by products anyway[177]). Under option 3.2, fewer products would apply such safeguards, therefore limiting the positive impact that the SFDR can have in this regard. However, option 3.2 could potentially encourage FMPs to produce more ambitious products, due to the absence of an inclusive lighter 3rd category. This could potentially lead to positive social, environmental and

[175] Recent figures from Morningstar (ESMA Guidelines on ESG Funds' Names, May 2025) estimate that 4220 investment funds have applied the ESMA guidelines criteria

[176] See Annex 3, sections 3.10 and 3.11, which set out a provisional overview of cumulative costs and benefits under the preferred options and demonstrates that the overall savings outweigh the costs. Given data limitations at this stage, this is however subject to considerable uncertainty regarding notably the estimated costs associated with the creation of product categories.

[177] See Annex 11, section 3.1.1

fundamental rights impacts. Under option 3.3, a large number of products would be in scope, but the criteria might be less impactful, therefore reducing the potential positive impact.

Given the dominant share of the EU sustainable investment market (84% of global sustainable fund assets[178]), simple categories could further boost the EU as an attractive market for investors interested in sustainability.

Summary of relative impacts

Comparative effectiveness, efficiency, coherence and other economic and ESG impact

Legend: +++ = Very positive ++ = Positive + = Slightly positive +/- = Mixed effect 0 = no effect - = Slightly negative -- = Negative --- = very negative

	Option 3.1	**Option 3.2**	**Option 3.3**
Effectiveness:			
(1) In simplifying and reducing the sustainability related requirements for FMPs and enhancing coherence	+++	+	+/-
(2) In improving end-investors' ability to understand and compare ESG products	+++	+	+/-
Overall effectiveness:	+++	+	+/-
Efficiency	++	++	+

❖ ***Stakeholders' feedback***

The public consultation revealed strong support for a voluntary categorisation system regulated at the EU level: A large majority of respondents believe that EU sustainability product categories are necessary for an efficient distribution system based on investors' sustainability preferences (69%), to combat greenwashing (64%), and to facilitate professional investors (72%) and retail investors (80%) understanding of products' sustainability-related strategies and objectives. 72% of respondents believe that disclosures alone are not enough to achieve these objectives. While the distribution of responses is similar across different stakeholder groups, respondents belonging to or representing the three financial services sectors (insurance, asset management and banking sector) have a slightly different view as regards the benefits of product categories for investors. 42% (11 out of 26) of respondents belonging to or representing the insurance sector totally or mostly agree that a categorisation system would improve understanding among professional investors, compared to 73% (104 out of 143) and 76% (13 out of 17) in the asset management and banking sectors, respectively. Similarly, 50% (13 out of 26) of the insurance sector respondents believe a categorisation system would help retail investors, compared to 84% (120 out of 143) and 76% (13 out of 17) in the asset management and banking sectors, respectively.

[178] Categorisation of products under SFDR - Report. See also Annex 5.

In addition, the call for evidence[179] confirmed a very large support for creating categories. Most respondents expressed support for creating 3 categories (sustainable, transition, and other ESG), while a small minority preferred 2 categories (sustainable and transition). A small portion of stakeholders also expressed interest for a standalone impact category, while acknowledging that impact products could also fall under the sustainable or transition category and disclose how they conduct impact investing.

The responses to the call for evidence also showed a general agreement regarding the need to align the criteria with the ESMA guidelines (i.e. the PAB and CTB exclusions). Many have also urged to ensure that the criteria will be adapted to all types of asset classes, while underlining that certain assets classes (such as derivatives, real estate and sovereigns) face considerable challenges under the current rules. Stakeholders from the insurance and pension sectors have urged to ensure that the criteria would fit their sectoral specificities.

7. PREFERRED COMBINATION OF POLICY OPTIONS

On the basis of the comparison of options carried out in section 6, the preferred option would combine option 1.2 for entity-level disclosures, 2.2 for product-level disclosures, and 3.1 for the set-up of sustainability-related categories.

7.1. Impacts of preferred options on the specific objectives

This combination of the preferred options is the more efficient and effective overall way to achieve the two specific objectives:

(1) FMPs would be provided with three categories with simple criteria for all ESG products. Compared to the current system, the new approach would create one set of coherent rules regarding ESG claims in names, marketing communication and in the distribution of such products, more geared towards FMPs and investors with an interest in ESG products which would be easier to compare as they would be based on shorter and standardised templates, . The criteria would provide clarity on the regulatory expectations and would also lower the risks of national gold plating. Excessive information requirements which are based on data which is less available and are not found to be decision-useful for investors would be cut. While these new categories may involve an initial cost in the short term (for FMPs and products not already subject to the ESMA guidelines), this would be duly phased in. The trade-off is also justified as the simplification measures are anticipated to reduce recurring costs over the medium to longer term, ultimately leading to greater overall efficiency. Long-term adherence to the fewer rules linked to the categories would be streamlined and much simpler than the current rules FMPs need to comply with. The disclosure requirements that would accompany these disclosures would be much shorter than the current reporting template under the Article 8 and 9. Therefore, as set out in Annex 3, costs linked to product level disclosures are expected to be significantly reduced while those related to entity-level disclosures would disappear. Over time, these would offset the one-off costs of moving to the new rules.

(2) The categories would effectively cluster the ESG financial products into three groupings depending on ESG objectives and levels of ambition. End-investors would be able to easily and quickly understand whether a financial product is focused on contributing to a sustainability objective/made largely of sustainable assets, if a product is focused on helping companies to transition toward more sustainable practices, or if a product is applying

[179] Feedback gathered during the Call for Evidence which ran from 2 May to 30 May 2025.

broader or lighter ESG strategies. The underlying criteria of the categories would ensure harmonised minimum ESG performance, notably against risks deemed unacceptable by the majority of sustainability-minded investors[180], thereby increasing investors' protection against greenwashing risks. Also, accompanying product disclosures would be made easier and simpler for them, giving them the essential information which experience demonstrates is of greatest value[181], with an opportunity for investors to get more detailed information on the ESG features if they want. This would facilitate the comparison of ESG products falling under the same category.

7.2. Impacts of preferred options on the general objectives

The preferred options would help contribute to the general objectives. Namely, they would help boost the integrity of the EU single market for sustainable finance by fighting greenwashing in an effective and efficient way, by replacing lengthy and complex disclosures with targeted minimum safeguards and ambition criteria, which would apply to all products making ESG claims or be distributed to retail investors with preferences for sustainable products. This would also help encourage the efficient allocation of capital for Europe's sustainable prosperity by boosting trust in ESG financial products and contributing to re-directing private capital that either contribute positively to EU sustainable goals or avoid harm to these objectives as part of deeper, more integrated and more competitive EU financial markets. No other EU legislation sets ESG disclosures for financial products which can help serve this purpose, and market-based solutions which would deliver the same are highly unlikely to emerge. Of course, as the options address the specific objectives identified for this initiative, they would need to work in tandem with other factors, involving the efficient functioning of markets and determining capital allocation, which are beyond the scope of this impact assessment, to fully achieve the general objectives.

The combination of the preferred options is expected to directly or indirectly contribute to positive environmental, social and human rights impacts through its three ESG categories, underpinning criteria and accompanying simpler disclosures. All ESG products would need to comply with EU minimum safeguards if they wish to make ESG claims or be distributed as such. These safeguards would include, depending on the nature of the claims, elements linked to the respect of human rights, adherence to social safeguards and norms, and mitigation of key environmental impacts. Certain ESG products would also need to demonstrate their positive contribution to environmental, social or fundamental right objectives, in order to fall under the more ambitious categories (sustainable and transition). These products would also need to comply with minimum disclosure requirements, which would include reporting on some social aspects.

This initiative is also expected to directly or indirectly contribute to the achievement of UN Sustainable Development Goals (SDGs) notably those related to the climate, environment and social progress by ensuring that ESG financial products can more efficiently both contribute to and not cause harm to these goals. Finally, in this regard the combination of the preferred options is also assessed to be the best way to ensure that the revised SFDR is consistent with the climate neutrality objective of the climate law[182].

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[180] See Annex 10 'Specific sustainability objectives/themes'
[181] See Annex 11, section 3.1.1
[182] Regulation (EU) 2021/1119 of 30 June 2021 establishing the framework for achieving climate neutrality (European Climate Law)

7.3. REFIT (simplification and improved efficiency)

As per the specific objective 1 (and the description of the impact of the preferred option on this objective in section 6), the combination of the preferred options has the potential to drastically simplify and improve the efficiency of the legislation.

7.4. Application of the 'one in, one out' approach

The quantifiable costs of this initiative are categorised as administrative costs from a better regulation perspective as they link to costs for disclosures to the public.

For the preferred option 1.2, we estimate an annual saving of EUR 56 million compared to the baseline. For the preferred option 2.2. we conservatively estimate annual recurring savings of at least EUR 55 million and for 3.1 we were unable to collect sufficient quantitative evidence to estimate the costs with a sufficient degree of statistical confidence.

Overall, Annex 3 suggests a net reduction in administrative costs from the initiative[183].

8. HOW WILL ACTUAL IMPACTS BE MONITORED AND EVALUATED?

To monitor progress towards meeting the specific and general objectives, the Commission services would continue to work together with established processes underway notably with the European Supervisory Authorities (ESAs) and the Platform for Sustainable Finance (PSF) to analyse:

(1) **The costs incurred by the industry** - The ESAs and the NCAs could be tasked to survey and assess the implementation costs linked to the new categorisation system at the latest 3 years after its implementation. This assessment could also monitor the cost reductions from the reduced disclosures and assessing how the market is adapting to the new rules.
(2) **Possible occurrences of greenwashing in EU markets.** The ESAs – together with the national competent authorities (NCAs) are already monitoring the occurrences of greenwashing and supervise sustainability-related claims. Their 2023 and 2024 reports[184] assess which areas of the sustainable investment value chain (SIVC) are more exposed to the risk of greenwashing. The Commission could work with the ESAs to conduct these assessments regularly (e.g. every two years), including to help assess the effectiveness of the future SFDR as a tool against greenwashing and amid the changes introduced by the omnibus proposals.
(3) **Capital flows to sustainable investment** – the Platform for Sustainable Finance has developed a novel framework for monitoring capital flows to sustainable investment, i.e. the financing of a clean and competitive transition[185]. The Commission could work with the PSF to conduct a targeted analysis a few years after the implementation of the regime to assess the degree to which the categorisation system, together with the simplified disclosures, has helped boost financing toward sustainable economic activities and projects and helped lower the cost of capital linked to these.
(4) **The understanding of EU retail investors** – Finally, the Commission could work with the ESAs and other associations to conduct a consumer survey a few years after the implementation of the regime. The survey could test whether the categories and their

[183] See Annex 3, sections 3.10 and 3.11
[184] 2023 interim reports: ESMA progress report, EBA progress report, EIOPA progress report and the 2024 joint final report
[185] Financing a Clean and Competitive Transition: monitoring capital flows to sustainable investment, PSF March 2025

accompanying streamlined disclosures have managed to improve consumers' ability to understand and compare ESG products and deliver credible ESG information to investors.

ANNEX 1: PROCEDURAL INFORMATION

1. Lead DG, Decide Planning/CWP references

This Impact Assessment Report was prepared by Directorate C "Financial Markets" of the Directorate General "Directorate-General for Financial Stability, Financial Services and Capital Markets Union" (DG FISMA). The Decide Planning reference of the "Revision of the Sustainable Finance Disclosure Regulation (SFDR)" is PLAN/2024/2126. This initiative is part of the Commission's Work Programme Simplification 2025.

2. Organisation and timing

Several services of the Commission with an interest in the initiative have been involved in the development of this analysis. Three Inter-Service Steering Group (ISSG) meetings, consisting of representatives from various Directorates-General of the Commission, were held in 2024 and 2025.

The first meeting took place on 2 October 2024 attended by representatives from DEFIS, ENV, CLIMA, EMPL, GROW, JUST, JRC, SJ, INTPA, and the Secretariat General (SG).

The second meeting was held on 24 April 2025. Representatives from DEFIS, MOVE, SJ, INTPA, ENV, CLIMA, EMPL, GROW, JUST, ENER, JRC and the Secretariat General (SG) were present.

The third meeting was held on 21 May 2025 and was attended by JRC, EMPL, MOVE, DEFIS, GROW, CLIMA, JUST, ENER, ENV and the SG. This was the last meeting of the ISSG before the submission to the Regulatory Scrutiny Board on 4 June 2025. The meetings were chaired by FISMA.

DG FISMA has considered the comments made by DGs in the final version of the IA.

3. Consultation of the RSB

The Impact Assessment report was examined by the Regulatory Scrutiny Board on 2 July 2025. The Board gave a negative opinion with the following comments. The changes in response to the comments are summarised under each respective point below (referring to version 1). The Board gave a positive opinion with reservations on the revised version on 8 October 2025, changes to which are also summarised below (referring to version 2).

RSB comment version 1: Policy options are not sufficiently specified to allow for an adequate assessment and comparison. The report leaves evidence uncovered that is necessary to justify and ensure feasibility, effectiveness and efficiency of the action at level 2.
Changes made to the IA: The report includes a more detailed description of what the policy options would concretely look like, mainly by providing a detailed description/example for streamlined disclosures and criteria for the proposed categories. These specifications are added to the core report (section 5.3.2 for a description of the disclosures and section 5.4 for a description of the criteria, notably box 3) and further detailed in Annex 8 (which also provides illustration of what the level 2 criteria could look like and a mock disclosure template). Sections 5.3 and 5.4 also explain the detail of what would be developed in level 1 vs. level 2. The report also includes evidence of the feasibility of relying on such disclosures and criteria to

achieve the specific objectives, mainly taken from market analysis of current practices and compliance with existing obligations. Evidence shows that the suggested criteria build on data that is available to a significant degree and are already applied by a large portion of the market, in contrast to other datapoints which are less available. It also explains how the introduction of such criteria would largely align with investors' known preferences (based on studies outlined in Annex 10), increase comparability and better address greenwashing concerns, compared to the current situation.

These additional elements do not pre-empt future level 2 rules but are provided as guiding illustrations to help better grasp the contours of the proposed categories and the main elements of the disclosures. Further analysis (such as market analysis and consumer testing) would be needed to set the final details once the level 1 is agreed by co-legislators.

RSB comment version 1: The report does not fully assess a sufficient range of options, including a repeal option. The coherence with the 'omnibus 1' is not sufficiently established

Changes made to the IA: The coherence with the 'omnibus 1' proposals, and more particularly the possible future changes to the CSRD and the EU Taxonomy, is further detailed. This is provided in section 5 setting the stage for and describing the relevant policy options, as well as in Annexes 3 and 6, regarding the assumptions regarding costs underpinning the assessment and the links with other parts of the sustainable finance framework.

The repeal option has been fully analyzed alongside the other proposed policy options. This is set out in the newly inserted sections 5.1 and 6.1.

After more studied consideration of the implications of the 'omnibus 1' proposals as well as the option to repeal the SFDR, the report maintains its conclusions that the preferred options (streamlined product disclosures and creation of 3 categories) are the most aligned with the specific objectives (simplifying and reducing the cost for financial market participants; improving end investors' ability to understand and compare ESG products). The analysis is further substantiated to demonstrate that a review of the SFDR along these lines, not its repeal, is not only the most effective and efficient way to achieve these objectives but also the most coherent with the reality post-'omnibus 1' and its practical impacts.

RSB comment version 1: The report is not convincing in terms of the feasibility of providing relevant ESG information partly based on estimates, which would nevertheless allow end investors to make meaningful assessments and comparisons across funds, while at the same time reducing costs and avoiding green washing

Changes made to the IA: The report introduces evidence of the feasibility to set ESG disclosures that would be meaningful and would be based on comparable and credible sustainability information which responds to investors' demand is of most interest to them (further explained in section 5.2.2 and in Annex 10).

First, the report describes the necessary features of the disclosures: (1) building from the existing corporate disclosures under the EU regulatory framework (i.e. CSRD and EU Taxonomy); (2) relying on concepts and metrics which are most commonly available, respond to investors' demand, and can be externally derived or estimated in case the company is not in scope of the EU regulatory framework. For the latter, the report provides an overview of the state of play of estimation practices and identifies the ESG topics and indicators for which robust estimation has proven to be feasible. The main findings are that the estimation practices on the suggested

exclusions are robust and derive from data that is widely available from companies. The focus on more simple and clear ESG indicators and concepts that would need to be estimated should also result in making the estimated disclosures more robust, reliable and comparable, compared to the excessive complexity and disparity in the disclosures today. Second, the report presents possible safeguards which could limit the greenwashing concerns around estimations. These consist of transparency obligations on: (1) the proportion of data that was estimated; (2) the possible use of external providers; (3) the implementation of the precautionary principle; (3) the calculation methodology and assumptions. These elements are added to the main report (section 5.4) and Annex 8.
RSB comment version 1: The report does not provide sufficient information on the costs associated with different options, including who will bear the costs and who will benefit from savings.
Changes made to the IA: Further details are provided in Annex 3 and in relevant parts of section 6 in the main report of the costs and benefits associated with the options. A more complete overview of the market size for products under the scope of the SFDR is also added in Annex 3 (section 1), together with an overview of academic studies on the benefits of sustainable investment (section 2), to support the findings of consumer studies in Annex 10 illustrating the demand for ESG investment options among investors. Annex 3 and relevant parts of section 6 of the main report also show further breakdowns of these impacts by type of stakeholder (SME vs. larger FMPs), detailed in the overview tables in Annex 3 as well as in its section 3. Further impacts in terms of specific sectors which could be affected by the introduction are included in the analysis of existing market practices in Annex 8 and in Annex 5 (competitiveness check).
RSB comment version 2: The report does not sufficiently assess how the revised SFRD will ensure the comparability between different investment products and the risks related to the use of estimates. The report does not adequately assess the risks of greenwashing.
Changes made to the IA: The discussion introducing options 3.1 and 3.2 in section 5.4 includes additional descriptions and analysis of some of the challenges and limitations in pursuing further comparability beyond that achieved with the proposed criteria. The section also explains further the balance to be struck in relying on data which is available, estimable and of most interest to investors, and the possible risks of greenwashing in overlooking some potentially decision-useful datapoints in the process. This is recalled in section 6.3 in comparing the relative merits of the options.
RSB comment version 2: The options are not sufficiently specified to allow for an assessment and comparison. The report does not fully assess effectiveness, efficiency and coherence of options including the repeal option.
Changes made to the IA: The articulation and relationship between the options is further specified in the introductory part of section 5, section 5.4 explains further what the options set out to achieve in terms balancing between the need for continuity, simplicity and adequate transparency for financial market participants and investors, and the analysis in sections 6.1 and 6.3 is complemented with additional information as recommended by the Board. Section 6.1 addresses why reliance on horizontal consumer protection rules (Unfair Commercial Practices Directive) would be suboptimal for the subject matter covered by the SFDR, and 6.3 discusses how each category can ensure the right information to investors but without overly prescribing

investment strategies for financial products and hampering market innovation.
RSB comment version 2: Since the full assessment of policy options depends on level 2 legislation, the report should explain how main alternatives and their impacts will be assessed for such subsequent regulations.
Changes made to the IA: Section 5.4 (Box: Elements to be defined at level 1 vs elements to be defined at level 2) recalls that the key choices will be set in level 1 and it would be premature to anticipate details on any level 2 implementing measures at this stage, which will be impacted by negotiations between co-legislators and are foreseen to be informed by further analysis including of consumer preferences and data availability. The section notes however that those measures would be assessed against their costs and benefits analysis and the preparation would follow better regulation guidelines. As an example, the IA notes that the points picked up by the Board on the usability of specific datapoints regarding adherence to UN and OECD guidance on governance practices would be addressed in level 2.

Other changes in response to comments by the RSB (version 1)

- The analysis of the problems is substantiated with further background of the root causes and other factors that have led to their emergence (in the evaluation, annex 11 to do with the timing of implementation of the existing SFDR, unsolved data availability issues, insufficient sensitivity to genuine investor-needs etc.) and which inform the lessons learned for the review.
- Further detail throughout the report that the requirements underpinning the proposed categories, including the 'transition' category largely favoured in feedback by FMPs and investors, do not constitute major new departures from the status quo but rather codify existing requirements and practice under the ESMA guidelines for fund names, and update and retrofit the requirements of the SFDR to this purpose.
- Analysis to underpin that the proposed new disclosures and categories would constitute a more proportionate regime than the status quo, more consciously geared toward FMPs and investors with an explicit interest in ESG investing (section 5).
- Further analysis showing that the discarded options (soft law/no categories/one category/more than three categories) are suboptimal in meeting the specific and general objectives of the review and at odds with stakeholder feedback (section 5.5).
- A discussion on how investment in sovereign bonds could be treated in assessing their potential positive ESG contribution (annex 7), noting that stakeholder feedback on the issue is inconclusive in the absence of comprehensive metrics for measuring public sector ESG performance, and suggesting a preference for their inclusion on an optional or partial basis, subject to additional disclosures.

Other changes in response to comments by the RSB (version 2)

- Besides information on the trade-offs with estimates added in section 5.4 and 6.3, further assessment is added in sections 5.4 and Annex 8, section 3 on why it is not considered apt to regulate ESG data providers, given the main results of the evaluation, coherence with the overall simplification agenda and for reasons of proportionality.
- Further clarifications are added to the introductory part of section 5, section 5.4 and section 6.3 on the voluntary nature of the revised framework, that this however entails certain restrictions for non-categorised products on how they can be marketed to investors, and that the preferred options do not go beyond what is necessary to achieve the objectives.

- The option to repeal the SFDR is complemented with details on links to horizontal consumer protection rules in sections 5.2, section 6.1 and Annex 6, section 3, and why reliance on these would likely be suboptimal, as well as further recalling why mere reliance on ESMA fund name guidelines would also be ineffective.
- Section 5.4 adds some analysis that the framework will have to evolve over time, should not be overly prescriptive to begin with to prevent this from happening, and that notably research regarding consumer preferences will continue to be important to reflect in level 2 and in future updates of the framework.

4. Evidence, sources and quality

The impact assessment draws on a combination of desk research, a targeted and open public consultation, two Briefings from the Platform for Sustainable Finance (PSF), a joint Opinion from the European Supervisory Authorities (ESAs), external studies, meetings with stakeholders and other outreach. The material used has been gathered since December 2022, when Commissioner McGuinness announced a comprehensive assessment of the SFDR framework. This material includes but is not limited to the following:

1. Targeted[186] and open public[187] consultation: The targeted and open public consultations, held between 14 September 2023 and 22 December 2023, were an important part of the assessment announced by Commissioner McGuinness to evaluate potential shortcomings – focusing on legal certainty, the useability of the regulation and its ability to play its part in tackling greenwashing. The open public consultation was addressed to the general public. The targeted consultation gathered input from public bodies and stakeholders who were more familiar with the SFDR and the EU's sustainable finance framework. Views were welcome from financial market participants, investors, NGOs, relevant public authorities, national regulators, and others that were subject directly or indirectly to the provisions of the SFDR and/or had more in-depth knowledge and/or (working) experience in the field of sustainable finance disclosures. The consultation provided the Commission with valuable input to inform the review of the SFDR.

2. Four technical workshops and roundtables, enabling stakeholders to submit further input. The workshops and roundtables complemented the open and targeted consultation, enriching the information and the observations received in the consultation.

3. Two Briefings[188] [189] from the expert group the Platform for Sustainable Finance (PSF). The Platform for Sustainable Finance (PSF) responded to the Commission's targeted consultation with a briefing note in December 2023. Further on, the PSF published in December 2024 a briefing note for the Commission outlining how a categorisation system for sustainable finance products could be set up.

4. The joint Opinion from the European Supervisory Authorities (ESAs) on how to set up categories for financial products[190]. The Commission duly considered this joint Opinion by

[186] Consultation document - Targeted consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR)
[187] Sustainable Finance Disclosure Regulation - assessment
[188] Platform on Sustainable Finance briefing on EC targeted consultation regarding SFDR Implementation - December 2023
[189] Categorisation of products under SFDR - Report
[190] JC 2024 06 Joint ESAs Opinion on the assessment of the Sustainable Finance Disclosure Regulation (SFDR)

the European Supervisory Authorities (the ESA's), delivered in June 2024 on their own initiative.

5. External Studies: the Commission has considered studies from both institutional and academic sources, quoted throughout in this assessment. Inter alia, the Commission considered the views contained in the study requested by the ECON Committee of the European Parliament on "the current implementation of the SFDR"[191]. The Commission also pondered the input provided in "Mind the ESG capital allocation gap", by economists Jan Fichtner, Robin Jaspert and Johannes Petry.

6. Engagement with Member States in the context of the Member State Expert Group (December 2024, June 2025), receiving preliminary inputs.

7. Continuous engagement with experts on key challenges and on how to set up categories. With a view to address specific issues, the European Commission continuously engaged with experts from the financial industry, NGOs/civil society and academics, as needed.

8. Feedback gathered during the Call for Evidence which ran from 2 May to 30 May 2025.

The material used to inform this impact assessment comes from the market participants as well as other reputable and well-recognised sources. Findings were cross-checked across the different information sources to avoid biases caused by outliers or vested interests.

[191] The current Implementation of the Sustainability-related Financial Disclosures Regulation (SFDR); With an assessment on how the legislative framework is working for retail investors

ANNEX 2: STAKEHOLDER CONSULTATION (SYNOPSIS REPORT)

1. Overview of consultation activities

In December 2022, Commissioner Mairead McGuinness announced a comprehensive assessment of the SFDR framework. Since then, the European Commission has conducted extensive consultation activities, addressing all aspects of the proposed legislative review.

These activities encompassed:

1. Two public consultations that ran from September to December 2023 (targeted[192] and open[193]). A summary report[194] was published in May 2024.
2. Four technical workshops and roundtables, enabling stakeholders to submit further input.
3. Two Briefings[195] [196] from the expert group the Platform for Sustainable Finance (PSF).
4. The joint Opinion from the European Supervisory Authorities (ESAs) on how to set up categories for financial products[197].
5. The Study requested by the ECON Committee of the European Parliament on "the current implementation of the SFDR"[198].
6. Engagement with Member States in the context of the Member State Expert Group (December 2024, June 2025)
7. Continuous engagement with experts on key challenges and on how to set up categories.
8. Feedback gathered during the Call for Evidence which ran from 2 May to 30 May 2025.

2. Stakeholder consultations

2.1. Targeted and open public consultations

Two public consultations, open and targeted, ran from September to December 2023. The open consultation, aimed at the general public, asked about the current requirements of the SFDR and the interaction with other sustainable finance legislation. As the Commission was also interested in exploring possible options to improve the framework and address any potential shortcomings, it also presented a targeted consultation, aimed at experts such as financial market participants, investors, NGOs, relevant public authorities and NCAs inter alia, adding to the questions of the public consultation other queries about potential changes to the disclosure requirements of the SFDR and the potential establishment of a categorisation system for financial products.

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[192] Consultation document - Targeted consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR)
[193] Sustainable Finance Disclosure Regulation - assessment
[194] Summary report of the open and targeted consultations on the implementation of the Sustainable Finance Disclosures Regulation (SFDR)
[195] Platform on Sustainable Finance briefing on EC targeted consultation regarding SFDR Implementation - December 2023
[196] Categorisation of products under SFDR - Report
[197] JC 2024 06 Joint ESAs Opinion on the assessment of the Sustainable Finance Disclosure Regulation (SFDR)
[198] The current Implementation of the Sustainability-related Financial Disclosures Regulation (SFDR); With an assessment on how the legislative framework is working for retail investors

324 organisations and individuals participated in the targeted consultation. Financial market participants (FMPs) and financial advisers made up the largest group of respondents (63%, 204 out of 324), primarily consisting of asset management firms (75%), insurance companies (14%), and banks (10%). The second largest group of respondents were NGOs, which constituted 11% (36 out of 324) of the respondents. FMPs and financial advisers who responded to the consultation mostly conduct business for both professional and retail investors (44%) or towards professional investors only (41%), with 14% focusing solely on retail investors. Respondents were predominantly from EU countries, with France, Germany, Belgium, Spain, and Luxembourg being the most represented (23%, 10%, 7%, 6%, and 6%, respectively, totalling 52%). Approximately 19% of respondents were from non-EU countries, predominantly the UK (11%) and the US (5%).

51 respondents provided answers to the open public consultation only. This group consists mainly of FMPs and financial advisers (37.3%, 19 out of 51) and NGOs (15.7%). The greatest number of respondents were from Germany (14%, 7 out of 51), followed by France, Belgium, Romania (12% each), and the UK (10%). Their responses were consistent with the trends observed in the targeted consultation.

2.2. Technical workshops and roundtables

The European Commission also held a series of technical workshops and roundtables when it issued the consultations on the implementation of the SFDR, allowing stakeholders to provide further comments accompanying the replies to the consultations. The workshops took place in October and December 2023, and January 2024.

2.3. Two opinions from the expert group the Platform for Sustainable Finance (PSF).

The Platform for Sustainable Finance (PSF) prepared a briefing note in December 2023 to address the main questions raised by the European Commission in the targeted consultation.

Following the European Commission's public consultation, in December 2024 the PSF published a briefing note for the Commission outlining how a categorisation system for sustainable finance products could be set up and calibrated. The briefing note is accompanied by an annex with guidance on setting thresholds and supporting data. The annex shows primary findings on the current state of the ESG markets and the potential impact that setting certain thresholds could have on current products falling under the scope of Article 8 and Article 9 of the SFDR. It also provides guidance on steps to determine possible thresholds for categories.

2.4. The Opinion from the European Supervisory Authorities (ESAs) on how to set up categories for financial products.

The European Supervisory Authorities (the ESA's), on their own initiative, delivered in June 2024 a joint Opinion on the assessment of the SFDR.

2.5. The Study requested by the ECON Committee of the European Parliament on "the current implementation of the SFDR".

This document was provided in July 2024 by the Policy Department for Economic, Scientific and Quality of Life Policies at the request of the Committee on Economic and Monetary Affairs (ECON) of the European Parliament. The purpose of the study is to inform the policy debate on sustainability disclosures under the SFDR and provide a legal assessment on possible changes to be brought to relevant legislation in order to improve the framework. The opinions expressed in the study are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament.

2.6. Engagement with Member States in the context of the Member State Expert Group (December 2024, June 2025)

The European Commission engaged with Member States in the context of the Member State Expert Group in December 2024, receiving preliminary comments.

2.7. Continuous engagement with experts on key challenges and on how to set up categories.

The European Commission engaged continuously with experts such as financial market participants, investors, NGOs, academics and other interested stakeholders, to tackle specific issues.

2.8. Feedback gathered during the Call for Evidence which ran from 2 May to 30 May 2025.

195 stakeholders responded to the call for evidence. Businesses associations and companies/businesses made up the largest group of respondents (68,4%). The second largest group of respondents were NGOs, which constituted 9.8% of the responses, followed by national authorities (5.2%). Respondents were predominantly from EU countries, with France, Germany, Belgium, Italy and Netherlands being the most represented (19,7%, 16,1%, 15%, 6,7%, and 5.2%). 14% of respondents were from the UK.

3. Results of the stakeholder consultations:

3.1. Current requirements of the SFDR and interaction with other sustainable finance legislation.

The consultation showed widespread support for the broad objectives of the SFDR. 89% (272 out of 304 respondents) considered that the objective to strengthen transparency through sustainability-related disclosures in the financial services sector was still relevant. In addition, 94% (276 out of 294 respondents) totally or mostly agreed that opting for a disclosure framework at the EU level was more effective than national measures at Member State level.

However, a wide majority of respondents also highlighted key limitations of the framework such as lack of legal clarity regarding key concepts, limited relevance of certain disclosure requirements and issues linked to data availability. According to many respondents, these limitations had hindered the effectiveness and usability of the framework.

Most notably, 84% (249 out of 296) totally or mostly agreed that the disclosures required by the SFDR are not sufficiently useful to investors, and 82% (247 out of 301) that some of its requirements and concepts are not sufficiently clear. 88% (263 out of 299) totally or mostly agreed that data gaps are making it challenging for FMPs and financial advisers to cope with the SFDR legal requirements. Most respondents agreed that these limitations are currently creating legal uncertainty (79%, 233 out of 296) and posing reputational risks for FMPs and financial advisers (80%, 237 out of 297) as well as risks of greenwashing and mis-selling (81%, 237 out of 294). In addition, a great majority (over 66%) of FMPs and financial advisers (over 66%) considered the current interactions between principal adverse impact (PAI) product and entity level disclosures unclear. In particular, 80% of FMPs face methodological challenges with the requirement to ‘take account of ’the principal adverse impact (PAI) indicators established in the RTS at entity level for the ‘do no significant harm ’(DNSH) test at product level. In addition, 77% found it unclear how FMPs should approach materiality as regards these PAI indicators in the context of product disclosures for DNSH.

When asked about issues surrounding data availability, 98% (176 out of 180) of FMPs who responded to these questions said they faced difficulties in obtaining good-quality data, and 53% (90 out of 171) reported engaging to a very large or large extent with investee companies to encourage reporting of the missing data. When asked about the cost of disclosures, 58% (167 out of 287) of total respondents answered that they did not consider it to be proportionate to the benefits generated. This figure increases to 71% (133 out of 186) among FMPs and 6 financial advisers. FMPs and financial advisers indicated that the main components of the costs of disclosures are the costs of personnel and of external advisory services.

Finally, 83% of respondents (245 out of 296) totally or mostly agreed that the SFDR was not being used solely as a disclosure framework as intended but also as a labelling and marketing tool (in particular articles 8 and 9).

As a result, respondents expressed divided opinions regarding the extent to which the regulation had achieved its objectives during its first years of implementation. For example, A majority (62%, 181 out of 292) said the SFDR had not effectively strengthened protection for end investors or made it easier for them to compare financial products with sustainability claims. A slight majority (52%, 153 out of 294) did not agree that it had successfully directed capital towards investments deemed sustainable, including transitional investments.

The PSF, for its part, made in its Briefing suggestions to improve the effectiveness and the understanding of ESG and sustainable investment products: to precisely align the product's name, its sustainability marketing claims, declared sustainability contributions, and the actual investment strategy; that the reporting on sustainability performance should cover the entire product, rather than just a portion of it; and when referencing sustainable economic activities, the definitions of environmentally sustainable investments to be exclusively derived from the Taxonomy.

As regards the interaction with other sustainable finance legislation, the consultation showed consensus on the need to ensure consistency across the wider Sustainable Finance framework: many respondents identified problems with the interactions between the SFDR and the EU Taxonomy, the Corporate Sustainability Reporting Directive (CSRD), the sustainability rules under MiFID II and IDD and the EU Climate Benchmarks. These respondents stated that these misalignments led to implementation challenges and operational costs and called for further improvement in the overall coherence of the wider framework.

The ESAs, in their joint opinion, also concurred that the framework could be improved and that the disclosures to investors in the SFDR may be complex by nature and difficult to understand, in particular for retail investors, as shown by two consumer testing exercises[199]. In addition, the ESAs also noted that, in practice, disclosures had been used by financial market participants to classify their financial products, as ‘Article 8’ or ‘Article 9’ products had been used since the outset in marketing material as ‘quality labels’ for sustainability, consequently posing greenwashing and mis-selling risks.

The study requested by the ECON Committee concurs with the view that investors, especially retail ones, have little use for most of the information generated under the SFDR. The disclosures are complex and based on concepts that are unfamiliar and unintuitive for them. Moreover, investors would be unable to differentiate the types of funds within Article 8 or Article 9 and may even struggle to differentiate Article 8 and Article 9 products. The study also recognizes that, while the

[199] The latest round of testing in the context of the Final Report on draft RTS on the review of PAI and financial product disclosures in the SFDR Delegated Regulation showed that respondents found the SFDR templates ‘complicated and hard to read’

SFDR was conceived as a disclosure regime, in practice it is used instead as a labelling scheme for products, yet with no binding threshold to substantiate the claims, leading to uncertainty and making it hard for investors to assess the veracity of green claims. That, in turn, increases the risk of "greenwashing" and mis-selling, but also of "green bleaching", i.e., when FMPs choose not to claim environmental, social, and governance (ESG) features for their products to avoid extra costs and legal risks.

The Study also noted inconsistencies between the SFDR and other Sustainable Finance legislation, signalling for instance inconsistencies with the Taxonomy Regulation, the Benchmarks Regulation exclusions and their relationship with the SFDR's PAIs, or some problems with corporate reporting under the Corporate Sustainability Reporting Directive (CSRD): corporates and FMPs may differ about what "material" impacts must be reported, and corporates who struggle to comply with all the CSRD data points may have little incentive to produce information in a form and level of detail enough to let FMPs to comply with their own SFDR-based reporting.

Feedback from the call for evidence very much reflected the previous feedback on the main limitations of the SFDR. The key limitations mentioned included the lack of clarity of the main concepts (i.e. sustainable investment and principal adverse impact); the excessive complexity of the disclosure requirements, the gold-plating practices and the poor comparability across products. As a result, the large majority of responses to the call for evidence suggests that the review should aim at simplifying the framework and definitions, enhance legal certainty and supervisory harmonisation, improve data quality and focus on end-investor understanding.

3.2. Changes to the disclosure requirements

Entity level disclosures:

In the consultation, views on whether the SFDR is the right place to set entity-level disclosure requirements for FMPs and financial advisers were split, especially across the different stakeholders 'groups. Most FMPs and financial advisers responded that they do not consider the SFDR the right place to include entity-level disclosures[200], while a majority of NGOs expressed support for having such disclosures in the SFDR[201]. NCAs' responses were split[202].

There was no consensus either regarding the views on the usefulness of the three sets of SFDR entity-level disclosures. Disclosures concerning sustainability risk policies gathered the highest level of support, with 49% (138 out of 280) of respondents finding them 'totally' or 'mostly' useful, while 15% (41 out of 280) responded 'not really' or 'not at all'. Opinions were less definitive on disclosures regarding adverse sustainability impacts (31% in support, 31% against) and remuneration policies (39% in support, 26% against).

Those in favour of the existing set of entity-level disclosures stated that they can provide valuable information to investors and civil society, allowing them to assess the sustainability ambition of an FMP and serving as a tool against greenwashing. Those against argued that they are not appropriate or useful to end-investors investing in financial products and reported that investors rarely seek aggregate sustainability-related information at the level of the FMP.

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[200] 52% (94 out of 182) responded 'not at all' or 'not really' and 21% (39 out of 182) responded 'mostly' or 'totally'. The rest responded 'partially' or 'don't know'

[201] 19% (6 out of 32) responded 'not at all' or 'not really' and 59% (19 out of 32) responded 'mostly' or 'totally'. The rest responded 'partially' or 'don't know'

[202] 29% (4 out of 14) responded 'not at all' or 'not really' and 36% (5 out of 14) responded 'mostly'. The rest responded 'partially' or 'don't know'.

A large majority of respondents called for these disclosure requirements to be simplified and streamlined across the sustainable finance framework. Many expressed concerns about a potential overlap between the transparency requirements on principal adverse impacts under the SFDR and the reporting obligations under the CSRD.

The PSF in its Briefing recommended assessing to what extent the disclosure of Principal Adverse Impacts (PAIs), at an entity level, could be integrated into CSRD/ESRS disclosures for Financial Market Participants (FMPs) that adhere to both regulations. The Platform believed that conducting a review of the effectiveness of various requirements, simplifying them and prioritising GHG emission reduction targets, progress reporting, taxonomy and transition plans would be beneficial.

The large majority of the responses to the call for evidence supported the deletion of the entity-level disclosures. Most respondents argued that end-investors are more interested in product-related information and that entity level disclosures should only be mandated under the CSRD, as per the new scope proposed by the omnibus. However, a small minority was in favour of retaining the entity-level disclosures while streamlining them in view of the reduction of data points under the CSRD.

Product level disclosures:

The consultation sought stakeholder views on potential changes to the product level disclosures, specifically on whether the framework should impose uniform requirements for all or for some financial products (e.g. products whose asset under management exceed a certain threshold to be defined, or products intended solely for retail investors) regardless of their sustainability-related claims, and whether additional disclosure requirements should be required from financial products that make sustainability-related claims. 56% of respondents (161 out of 288) agreed 'to a very large' or 'large extent' that the EU should impose uniform disclosure requirements for all financial products offered in the EU, regardless of their sustainability claims. 31% (88 out of 288) of respondents expressed the opposite view. Supporters of this measure, which were present throughout all stakeholders' groups (for example, 50% of FMPs and financial advisers support such disclosures), argued that it would enable a level playing field, avoiding that sustainable products are disadvantaged by more reporting burdens and costs. Some also argued that it would enhance transparency and comparability, allowing investors to make better informed choices. Those against argued that it would impose unnecessary costs on products without sustainability claims and could confuse investors with information that may not be aligned with a product's investment strategy, raising the risk of greenwashing. When asked about what these disclosures should be, a large majority of respondents answered that they should be restricted to key meaningful indicators that are comparable across different markets and asset classes and easily understandable for retail investors. Respondents mostly mentioned climate, diversity and human rights as topics to be covered by the disclosures. Many respondents also argued that metrics on transition should be added. Conversely, some respondents, mainly from the NGO sector, suggested that there should be a comprehensive set of disclosures which could include the mandatory PAIs, alignment with the EU Taxonomy, percentage of investments in undertakings with a science-based transition plan, exclusions and engagement.

In the consultation it was shown that there was less support for imposing uniform disclosure requirements for some financial products, regardless of their sustainability related claims (e.g. products whose assets under management exceed a certain threshold to be defined, or products intended solely for retail investors), with 62% (172 out of 277) of respondents not agreeing at all, or only agreeing to a limited extent. The distribution of responses is similar across all stakeholder groups. Most respondents expressed concerns that it would make sustainability performance

comparison impossible and would make the disclosure framework more complex and confusing. Many have also flagged that it would be challenging to define a subset of financial products that would need to fall within the scope of these disclosures.

Additionally, 55% (152 out of 274) of respondents agreed that products making sustainability claims should provide additional disclosures to support their claims to ensure credibility and prevent greenwashing. While there was no clear consensus about what these qualitative and quantitative disclosures should be, the most cited ones include: sustainability objectives, sustainable investment strategy and associated binding and measurable KPIs, minimum standards of good governance, percentage of sustainable investments and Taxonomy-alignment, decarbonisation targets, percentage of undertakings having a transition plan, applied exclusions, engagement and voting policies and PAIs. Some respondents argued that such disclosures should be set in a flexible manner to align with diverse product investment strategies and to accommodate innovation and evolving market standards. On the other hand, others were of the view that these disclosures should be set by the regulators and be identical for all financial products with sustainability claims.

Lastly, many respondents stressed the importance of aligning these disclosures with potential future product categories and minimum criteria under the revised SFDR framework and argued that any changes to the SFDR disclosures would need to be reflected in the MiFID and IDD sustainability preferences rules.

On the other hand, the PSF in its Briefing in December 2023 underlined the importance of PAI disclosure on product level, in particular for products that consider PAIs under Article 7 of the SFDR.

The Platform also proposed a streamlined approach to disclosures, recommending a set of pre-contractual disclosures and a single set of periodic reporting disclosures.
Disclosures should focus on key information, accommodating multi-option products by utilising website disclosure for additional details, such as individual PAI indicators.
The Platform envisioned the integration of the Taxonomy into the periodic reporting of any financial product in the future.
Over the long term, the Platform advocated mandatory minimum ESG reporting requirements, including GHG emissions and the Taxonomy, across all financial products.

Lastly, the Platform underscored the importance of distinguishing between pre-contractual commitments and periodic reporting, claiming that the former entails product restrictions while the latter provides information on the current investments of the product.

As regards the ESAs, in their joint Opinion published in June 2024 they recommended the Commission to ensure that sustainability disclosures catered to different investor needs, and improvements in sustainability disclosures took into account different distribution channels, including digital ones, and ensured consistency of information provided. The Commission should prioritise only essential information for retail investors while professional investors may benefit from more detailed information. The ESAs encouraged the Commission to carefully reflect on whether to include other products in the SFDR scope to ensure harmonised disclosures for both products currently in the scope of SFDR and any other products that could be brought into the scope. Furthermore, information on key adverse impact indicators could be considered for all financial products, based on a cost-benefit analysis justifying the introduction of such requirement; and the ESAs also suggested that the Commission could evaluate the introduction of a framework to assess the sustainability features of government bonds, taking into account the specificities of that asset class.

For its part, the Study requested by the ECON Committee considers that SFDR disclosures should work seamlessly with other disclosure rules. In general, the information pipeline (including corporate reporting under the CSRD, indexes under the Benchmarks Regulation, and reporting under the SFDR) needs to be streamlined. A more widespread reporting of PAIs, covering more products, is needed, but calibrated between sustainable or impact products, transition products, and general products with no sustainability features. The Study claims that the streamlining of rules and the expansion of their scope, would derive considerable benefit from more emphasis, in parallel, on FMPs' methodologies, technology and tools to process the information. Authorities that play a constructive role in developing such methodologies and tools could be more prescriptive in their expectations, while reducing (some) FMPs' dependence on "infomediaries", regulated (index and ESG Ratings providers) or not (e.g., other data providers).

The call for evidence signalled that a large majority of stakeholders across the board welcome considerable simplifications to product level disclosures (for example by limiting the number of pages for the pre-contractual document to 2 to 3 pages), focusing on key information for investors regarding e.g. the potential classification of a product and adherence to associated criteria (see below), its main sustainability-linked objectives and strategy, and KPIs for measuring performance. In addition, most respondents stressed the need to add a reference to the category in the PRIIPs KIID. Most respondents also indicated that disclosures of sustainability risks remain useful, including for products currently falling under Article 6 (i.e. or non-categorised products).

3.3. Categorisation for financial products

In the consultation, strong support for a voluntary categorisation system regulated at the EU level was expressed: a large majority of respondents (72%, 205 out of 284) totally or mostly disagreed with the idea that simply disclosing sustainability information was enough, indicating the need to set up an EU categorisation system for financial products. While the distribution of responses was similar across different stakeholder groups, respondents belonging to or representing the three financial services sectors (insurance, asset management and banking sector) had a slightly different view as regards the benefits of product categories for investors: 42% (11 out of 26) of respondents belonging to or representing the insurance sector totally or mostly agree that a categorisation system would improve understanding among professional investors, compared to 73% (104 out of 143) and 76% (13 out of 17) in the asset management and banking sectors, respectively. Similarly, 50% (13 out of 26) of the insurance sector respondents believed a categorisation system would help retail investors, compared to 84% (120 out of 143) and 76% (13 out of 17) in the asset management and banking sectors, respectively.

61% (163 out of 268) of respondents agreed that the SFDR is the appropriate legal instrument to deal with the accuracy and fairness of marketing communications and the use of sustainability related names for financial products, 19% (51 out of 268) disagreed and the remainder were unsure. In addition, 69% (192 out of 279) of respondents totally or mostly agreed that the introduction of product categories should be accompanied by specific rules on how market participants must label and communicate on their products. Several stakeholders raised timing concerns regarding the ESMA guidelines for fund names and the regulatory coherence with a potential new product categorisation system.

The consultation asked about two proposed approaches to a potential EU categorisation system: whether such categories should be based on new criteria (not related to existing concepts under the SFDR) (approach 1), or if Articles 8 and 9 should be converted into formal product categories by clarifying and adding criteria to support the already existing concepts (approach 2). Respondents showed no clear preference: results indicated a slight preference for the first approach, with 50% (145 out of 293) of respondents totally or mostly agreeing and 23% (66 out of 293) totally or

mostly disagreeing. The distribution of responses varied among the different types of respondents. Notably, the majority of respondents belonging or representing NCAs and the asset management sector supported the approach 1, while most respondents from the insurance sector strongly disagreed with it and favoured an approach based on existing concepts. The views of respondents representing the banking sector were divided. The majority of respondents in favour of approach 1 highlighted the limitations in the current framework and argued that the existing concepts could not cater for, or differentiate between, the wide range of ESG strategies in the market. Many also stated that the current terms were not adequate for retail investors. They also argued that new categories could allow for a potential alignment with other national regimes. Conversely, most respondents in favour of approach 2 argued that the SFDR already provided the necessary elements for sustainability assessments and disclosures and expressed concerns about regulatory stability and the associated costs of switching to a different system, which would be transferred to end-investors.

Despite diverging views on the approach to be taken, many respondents indicated that they would support a hybrid approach combining established SFDR concepts with a voluntary categorisation framework. Irrespective of the chosen approach, most respondents emphasised the importance of the categories being focused on retail investors, incorporating international frameworks, and leveraging existing national labels.

Although opinions differed on the approach to be taken, commonly agreed principles for the categories and underlying criteria emerged among respondents: (1) Retail investors-focused: A large majority of respondents stressed the importance of categories being easily understandable by retail investors. They called for simple and comparable disclosures to help retail investors grasp the products' investment goals, strategies used to achieve them, and ESG performance monitoring. (2) International dimension: While acknowledging that full alignment with third countries' categorisation systems may not be feasible, most respondents urged the European approach to allow for international applicability. (3) Integrating the concept of transition finance: There is overwhelming support (72% of respondents) for creating a specific category for products with a transition focus, aiming to improve the sustainability profile of the assets they invest in. (4) Asset-neutral criteria: Respondents highlighted the need for underlying criteria to be asset-neutral and applicable to all types of financial products.

The Platform also advocated in its first Briefing in December 2023 for the introduction of a common categorisation scheme to address the existing fragmentation and confusion in the European market. The Platform suggested that such categorisation:

- Should be structured in such a way to be easily understood by retail investors and used to address sustainability preferences.
- Should avoid the impression that one product's processes are ranked better than another's (e.g. 'best in class' better than 'engagement' or vice versa), whereas a ranking according to the extent of transparency (e.g. Article 9 or 8) appeared suitable from a precautionary principle perspective.
- Should only be based on a thorough analysis of the intended use, how to ensure clarity of categorisation, proper evaluation of the impact of such categorisation as well as an analysis whether it should be mandatory or optional. In addition, it should be analysed whether the categorisation should be based on committed elements or actual elements of a product.

The ESAs, in their joint Opinion, made some recommendations to the Commission regarding the potential categorisation of financial products. In this vein, the Commission could consider the introduction of a product classification system based on regulatory categories and/or sustainability

indicator(s)[203] to help consumers navigate the broad selection of sustainable products and support the full transition to sustainable finance. The categories should be simple with clear objective criteria or thresholds to identify which category the product falls into. The ESAs encouraged, at least, categories of 'sustainability' and 'transition'. The options for product categorisation and /or sustainability indicator(s) should be consumer tested and consulted on. With clear product categories and/or sustainability indicator(s), sustainability disclosures would not need to be as detailed and extensive.

In the Study requested by the ECON Committee, the authors concur that product names, categories or "labels" are useful. However, they believe that article 8 and article 9 should not be transformed into categories, as they are too complex and unintuitive for investors. Instead, a new system, with new categories should be established. In light of investor preferences, market structure, and policy priorities, they consider that the new categories should include "impact" products and "transition" (in the sense of transition facilitating) products. The inclusion of "transition" products would make it possible for investors to choose products that, while not making investments that are sustainable, have a clear aim to bring measurable improvements to the sustainability profile of the assets invested in. Furthermore, a "sustainable" products category, though promising would need more precision. Clearer product categories would make the information more usable for investors, helping with both "greenwashing" and "green bleaching", under certain conditions. First, all these categories should be based on consumer testing, both beforehand and ex post, to ensure that the categories work as intended. Second, products "names" need to be considered together with mechanisms that ensure measurability and accountability. Third, there should be more emphasis on market analysis, to ensure that the categories encompass a sufficiently large part of the market, and to track whether they help FMPs improve their sustainability features.

The Platform on Sustainable Finance (PSF), in its second Briefing presented in December 2024, strongly supported establishing a categorisation scheme that benefitted retail investors, and which would be usable for all investors. The proposal took consideration of the need for a smooth transition from the existing disclosure regime. The Platform recommended categorising products with the following sustainability strategies:

- Sustainable: Contributions through Taxonomy-aligned Investments or Sustainable Investments with no significant harmful activities, or assets based on a more concise definition consistent with the EU Taxonomy.
- Transition: Investments or portfolios supporting the transition to net zero and a sustainable economy, avoiding carbon lock-ins, in line with the European Commission's recommendations on facilitating finance for the transition to a sustainable economy.
- ESG collection: Excluding significantly harmful investments/activities, investing in assets with better environmental and/or social criteria or applying various sustainability features.

All other products would be identified as unclassified products.

The PSF argued that the proposal, to be effective, requires aligning sustainability preferences with the categories. Investors and advisors should easily identify the products that match sustainability preferences, supported by mandatory disclosures that facilitate the alignment. The categorisation of products should reflect the sustainability strategy employed in constructing each financial product.

The Platform recommended evaluating whether the scope of the categorisation should go beyond the current SFDR, considering whether all products and services under sustainability preferences in

[203] A sustainability indicator could refer to environmental sustainability, social sustainability or both, illustrating to investors the sustainability features of a product in a scale

IDD/MiFID should be categorised. Furthermore, the Platform recommended to develop a common understanding on impact investing in the EU sustainable finance framework and how it relates to the EU Taxonomy (Taxonomy) and, subsequently, determine how to integrate it in the categorisation scheme.

The categorisation scheme should be grounded in the sustainability strategy of the financial product and align with an investor's values or impact objectives. Investors' sustainability values should be identified through their preferences, enabling a clear match with available products. Pre-contractual product disclosures would assist in identifying suitable options, while regular reporting should keep investors informed about the sustainability performance of their chosen products. All types of products and services relevant for IDD/MiFID sustainability preferences should be able to be classified within the scheme. Furthermore, investment options that today do not fall under SFDR should be able to demonstrate that they fulfil the category criteria and are then classified accordingly.

Categories should have precise minimum criteria, clearly defined objectives, and measurable KPIs. Products within these categories should measure and disclose their sustainability performance.

The PSF argued that the categorisation scheme proposed addressed SFDR disclosure issues such as the challenges related to inappropriate use of SFDR disclosure requirements. It aims at mitigating fragmentation due to varying national labelling regimes and different interpretations by National Competent Authorities (NCAs), auditors, and lawyers. The scheme should facilitate investment flows and sustainable economic growth by preventing fragmentation, which affects the passporting regime for investment products.

The PSF acknowledged that the proposal remained high-level, but it should serve as a basis from which to build a complete and detailed categorisation scheme. The proposal requires further development to define or refine thresholds based on real world testing.

The call for evidence confirmed a very large support for creating categories. Most respondents expressed support for creating 3 categories (sustainable, transition, and other ESG), while a small minority preferred 2 categories (sustainable and transition). A small portion of stakeholders also expressed interest for a standalone impact category, while acknowledging that impact products could also fall under the sustainable or transition category and disclose how they conduct impact investing.

The responses to the call for evidence also showed a general agreement regarding the need to align the criteria with the ESMA guidelines (i.e. the PAB and CTB exclusions). Many have also urged the Commission to ensure that the criteria will be adapted to all types of asset classes, while underlying that certain assets classes (such as derivatives, real estates and sovereigns) and facing considering challenges under the current rules. Stakeholders from the insurance and pension sectors have urged to ensure that the criteria would fit their sectoral specificities.

Finally, a majority of respondents called for due consideration of the changes expected under the omnibus proposals, and the need to reflect potential categories in product distribution rules namely under MiFID and IDD.

ANNEX 3: WHO IS AFFECTED AND HOW?

1. Practical implications of the initiative

This initiative addresses the following problem drivers identified in the evaluation and problem definition:

- Unclear lengthy and complex disclosure requirements and ESG concepts
- Misalignments and duplication with other sustainable finance rules
- Lack of ESG data and insufficient guidance of estimations
- Disclosure articles (Art. 8 and 9) used as categorisation while not being fit for that purpose

It intends to address those problems by the following combination of preferred options:

- Option 1.2: Deletion of entity-level disclosures
- Option 2.2: Significantly reduce product-level disclosures
- Option 3.1: introduction of categorisation system with 3 categories (sustainable, transition and other ESG).

This initiative will have impacts on the following groups of stakeholders:

- Financial market participants (including SMEs): are bearing the cost of implementing the SFDR as well as potential future policy options to further develop the SFDR framework. A significant share of financial market participants are SMEs.
- Non-financial businesses: can benefit from the SFDR provisions if they are performing activities that are classified as sustainable or not harmful from an environmental, social or governance perspective and can have easier access to finance by disclosing sustainability information.
- Citizens: Would benefit from the SFDR revision by receiving in the future sustainability information for financial products in a simpler format giving higher transparency, a clearer and more visible differentiation and assuring minimum quality standards by introducing safeguards that should mitigate greenwashing risks, increase trust and confidence in such products.
- Public administrations will have one-off efforts to familiarise themselves with the updated SFDR rules. These largely follow market practices in the wake of the ESMA guidelines and are they are expected to benefit in the long-term from clearer rules and simpler disclosures.

2. Summary of costs and benefits

Table 1: ***Overview of costs and benefits identified in the evaluation***

Measure	BR Type of cost or benefit*	Group Affected**	Frequency	Amount	Description
Requirement to publish entity level disclosures	Direct benefit	Citizens that are retail investors and Businesses acting as professional investors	Recurrent	qualitative	Entity-level disclosures of FMPs provide information on their policies on integrating sustainability risks, how they consider principal adverse impacts on sustainability factors, and how their remuneration policies align with sustainability objectives. This can help investors to choose products from those FMPs that align best with their sustainability preferences. Professional investors benefit from the ability to perform due diligence and select partners or products that align with their clients' ESG mandates or their own institutional policies
	Direct admini-strative costs	Small Businesses	One-off	€70m	Internal Personnel, IT implementation and external advice to familiarise with and implement entity-level disclosures
		Large Businesses	One-off	€50m	Internal Personnel, IT implementation and external advice to familiarise with and implement entity-level disclosures
		Small Businesses	Recurrent	€43m	Ongoing annual internal and external cost to maintain entity-level disclosures
		Large Businesses	Recurrent	€13m	Ongoing annual internal and external cost to maintain entity-level disclosures
Requirement to publish product level disclosures	Direct benefit	Citizens that are retail investors and Businesses acting as professional investors	Recurrent	qualitative	Product-level disclosures provide detailed, information according to common parameters on how each financial product integrates sustainability risks, considers adverse sustainability impacts, and aligns with environmental or social objectives. Retail investors can use product-level disclosures to match investments with their personal sustainability goals, focusing on the specific ESG characteristics or objectives of each product. Professional investors benefit from the granularity of data to conduct due diligence, tailor investment strategies, and meet client mandates. Product-level disclosures provide the most relevant information for investment decisions, as retail investors typically invest in individual products rather than at the entity level. The disclosures include pre-contractual and periodic information, helping investors monitor investments over time.
	Direct admini-strative costs	Small Businesses	One-off	€200m	Internal Personnel, IT implementation and external advice to familiarise with and implement entity-level disclosures
		Large Businesses	One-off	€180m	Internal Personnel, IT implementation and external advice to familiarise with and

Measure	BR Type of cost or benefit*	Group Affected**	Frequency	Amount	Description
					implement entity-level disclosures
		Small Businesses	Recurrent	€120m	Ongoing annual internal and external cost to maintain product-level disclosures
		Large Businesses	Recurrent	€70m	Ongoing annual internal and external cost to maintain product-level disclosures
Supervise entity and product level disclosures	Direct benefit	Citizens that are retail investors and Businesses acting as professional investors	Recurrent		Supervision ensures that FMPs comply with the SFDR, which strengthens accountability for the claims made about sustainability. Effective supervision makes it harder for firms to engage in greenwashing
	Direct adjustment costs	Admini-strations	One-off	Not quantified	Costs for supervisors and NCAs to familiarise themselves with the new rules and implement new procedures (e.g. processes, IT-systems, databases)
	Direct adjustment costs	Admini-strations	Recurrent	Not quantified	Costs for ongoing administrative procedures linked to the supervision of the SFDR. According to the most recent Greenwashing reports of ESMA, about 80 FTEs are allocated to sustainability matters in NCAs that deal with market supervision of issuers and about 92 FTEs to supervisory and regulatory activities linked to investment management[204]. EBA determined that the competent authorities (CA) in banking allocated only limited resources to sustainability issues with 9 CAs out of 30 with 3 or more FTE; 13 two or less; and 9 with no resources or no information[205]. EIOPA reports about 30 FTEs in total that are performing sustainability-related tasks.[206]-

[204] ESMA (June 2024): Final Report on Greenwashing: ESMA36-287652198-2699
[205] EBA (September 2024): Report on greenwashing monitoring and supervision.pdf and EBA (May 2023): progress report on greewnwashing.pdf.
[206] EIOPA(June 2024): Advice to the European Commission on greenwashing risks and the supervision of sustainable finance policies

– I. Overview of Benefits (total for all provisions) – Preferred Option				
– *Measure*	– *Group affected*	– *Frequency*	– *Amount*	– *Comments*
– *Direct benefits*				
– Combination of all preferred options	– Small Businesses	– Recurrent	– -€60m	– Details see section 3.10 below.
– Combination of all preferred options	– Large Businesses	– Recurrent	– -€30m	– Details see section 3.10 below.
– *Indirect benefits*				
– Combination of preferred options: 1) Abolish entity level disclosures 2) Significantly reduce Product level disclosures 3) Introduce categorisation system with 3 categories	–	–	– qualitative –	– **FMP (preparer perspective):** - **Reduce** the sustainability-related **administrative** requirements and complexity - Boost the competitiveness of Europe's financial sector by ensuring **conditions which make business easier** and help to deepen our single market for sustainability-linked financial products – **End-investor and distributor** (user perspective): - Improve end-investors' ability to understand and compare sustainability-linked financial products - Facilitate distribution along the investment chain - Increase consumers' confidence in financial products with sustainability claims by setting minimum standards (in line with the applicable ESMA

				guidelines on funds names)

Estimates are gross values relative to the baseline for the preferred option as a whole (i.e. the impact of individual actions/obligations of the preferred option are aggregated together);

• **II. Overview of costs – Preferred option**							
•		• **Citizens/Consumers**		• **Businesses**		• **Administrations**	
		• **One-off**	• **Recurrent**	• **One-off**	• **Recurrent**	• **One-off**	• **Recurrent**
• Action (a)	• Direct adjustment costs	• *none*	• *none*	• *none*	• *none*	• *Effort linked to familiarisation* [207]	• mixed[208]
	• Direct administrative costs	• *none*	• *none*	• *€€74m*	• *-€90m*	• *none*	• *none*
	• Direct regulatory fees and charges	• *none*	• *none*	• *none*	• *none*	• *none*	• *none*

[207] Public administrations surveyed expect for the abolishment of entity-level disclosures no or limited additional effort (mainly to understand the new requirement), for the simplification of product level disclosures about 0.1-2 additional FTE in the first year and about the same additional FTE for the introduction of a product categories in year 1 to familiarise themselves with the new regulation and perform the required adaptation.

[208] The replies of authorities were mixed, many authorities could not assess the long-term consequences without seeing the final proposal, some authorities saw a long-term potential of saving effort up to 30% provided that the legal clarity, simplicity and objectivity will increase and ambiguity decrease; some authorities expected additional effort, e.g. due to the approval process of funds under the new regime.

• II. Overview of costs – Preferred option							
•	• Citizens/Consumers		• Businesses		• Administrations		
	• One-off	• Recurrent	• One-off	• Recurrent	• One-off	• Recurrent	
• Direct enforcement costs	• *none*	• *none*	• *none*	• *none*	• *none*	• *none*	
• Indirect costs	• *none*	• *none*	• *none*	• *none*	• *none*	• *none*	

** The EUR 74 million* is *the annualised value of one-off costs amounting in total to EUR 630 million (subject to the caveats in Table 3 of section 3.10), assuming that a loan has been issued to finance the one-off burden over a period of 10 years and an interest rate of 3%.*

III. Application of the 'one in, one out' approach – Preferred option(s)			
[M€]	**One-off** (annualised total net present value over the relevant period)	**Recurrent** (nominal values per year)	**Total**
Businesses			
New administrative burdens (INs)	€74m	€24m	€98m
Removed administrative burdens (OUTs)	€0m	-€110m	-€110m
Net administrative burdens*	**€74m**	**-€86m**	**-€12m**
Adjustment costs**	€0m	€0m	
Citizens			
New administrative burdens (INs)	€0m	€0m	€0m
Removed administrative burdens (OUTs)	€0m	€0m	€0m
Net administrative burdens*	**€0m**	**€0m**	**€0m**
Adjustment costs**	€0m	€0m	
Total administrative burdens***			**-€12m**

(*) Net administrative burdens = INs – OUTs;
(**) Adjustment costs falling under the scope of the OIOO approach are the same as reported in Table 2 above. Non-annualised values;
(***) Total administrative burdens = Net administrative burdens for businesses + net administrative burdens for citizens.

Details on the costs and benefits

1. Description of the EU funds market

The SFDR seeks to harmonize existing provisions on disclosures to investors in relation to sustainability-related disclosures by imposing requirements on **financial market participants** ("FMP", e.g. AIFMs and UCITS management companies and investment firms carrying out portfolio management) and **financial advisers** ("FA", firms authorized under MiFID to give investment advice and credit institutions) in relation to financial products (e.g. AIFs, UCITS). The SFDR requires an enhanced level of disclosure. The nature and extent of these disclosure requirements under the regulation depend on the characteristics of products.

The table below summarises the estimated number of entities affected by the SFDR and their product volume. It is decomposed into the insurance & pension funds, banks and investment firms and investment fund sectors. For the product volume of those sectors, it is important to note that there are overlaps as insurance companies, investment firms as well as banks can invest into funds shares/units and/or provide asset management services. According to EFAMA the total volume of Assets under Management in the scope of SFDR is estimated at about EUR 16 trillion (end 2023), of which about EUR 12 trillion are reported in the database Morningstar that serves as the universe of assets, for which information on the fund volume and SFDR classification was available.

Sector	Types of entities	Total CEPS [209] (2020)	Updated value (2025)	Estimated product volume	o/w in Morningstar
Insur-ance	Insurance companies making available IBIPs	*778*	*772*	CIU Investment from in unit-or index linked contracts: EUR 1.5 trn[4] CIU investment from profit-linked contract EUR 1:5 trn[4]	CIU Investment from in unit-or index linked contracts: EUR 1.1 trn[4] (75,9%) CIU investment from profit-linked contract EUR 0.3 trn[4] (18,9%)
	Institutions for occupational retirement provisions - IORPs	*5 669*	*5 590*[2]	Consolidated asset value IORPS EUR 2.7 trn	EUR 0.5 trn (17,9%)
Banks	Credit Institutions providing Portfolio Management	*2 137*	*236 (conso-lidating entities with several activi-ties)*	- EUR 11.1 trn[3] AuM (managed by 201 entities) - EUR 4.2 trn[3] Customer resources distributed but not managed (153 entities) - EUR 0.82 trn[3] (overseen by 60 entities)	*NA*
Invest ment firms	Investment Firms	*5 778*	*5 923*[1]		
Invest ment funds	Alternative investment funds - AIF	*1 987*	*3 112*[1]	Assets of investment funds in scope of the SFDR are estimated at about EUR 16 trillion (End 2023).[6]	About EUR 0.9 trn of alternative investment funds are shown in Morningstar including 3 950 products from at least 279 issuers.
	Venture capital funds - EuVECA	*115*	*387*[1]		
	Social entrepre-neurship funds - EuSEF	*6*	*16*[1]		
	UCITS	*1 139*	*1 330*[1]		About EUR 12 trn of UCITS are shown in Morningstar inc. 25 690 products from

[209] Study on the Non-Financial Reporting Directive – CEPS

Sector	Types of entities	Total CEPS [209] (2020)	Updated value (2025)	Estimated product volume	o/w in Morningstar
					at least 871 issuers. [8]
	Total	***17 609***	***17 544***	***Product volume not additive due to overlaps in the financial sector***	

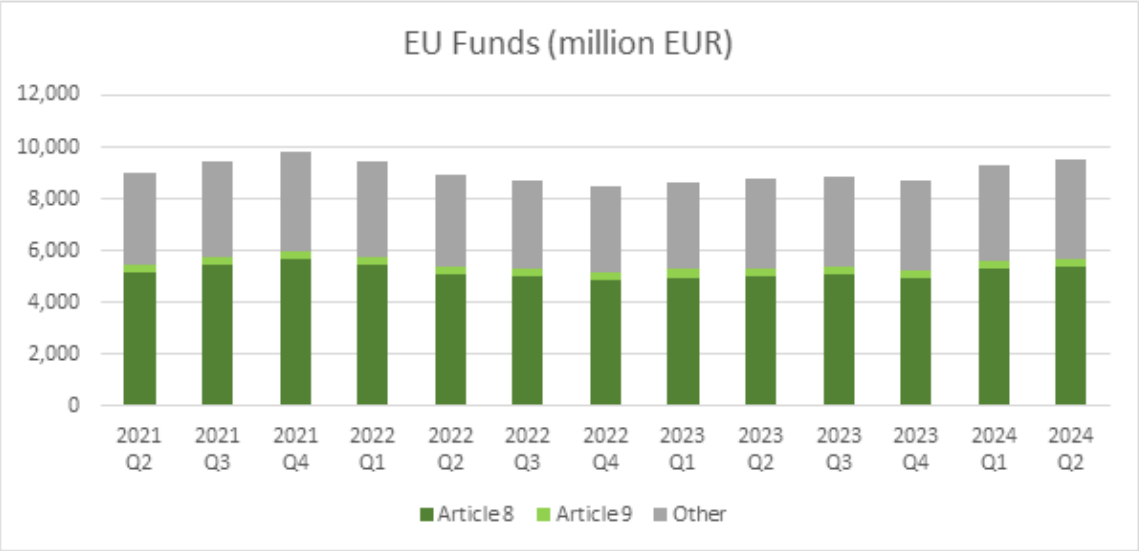
Notes to the table:

1 https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_upreg
2 https://register.eiopa.europa.eu/registers/register-of-insurance-undertakings
3 EBA FINREP data as off Q1 2025. FINREP data is available to EBA only for institutions preparing consolidated accounts.
4 EIOPA (2024): Advice to the European Commission on greenwashing risks and the supervision of sustainable finance policies https://www.eiopa.europa.eu/document/download/4de6b580-521d-4ad0-af83-2ecf133abdf4_en?filename=EIOPA-BoS-25-016_EIOPA%20IORPs%20in%20focus%20report%202024.pdf
5 EFAMA Quarterly Statistical Release Q4 2024: quarterly-statistical-release-q4-2024.pdf
6 EFAMA Asset Management Report 2024. The product volume estimated for EU investment firms includes also investment volumes managed on behalf of banks and insurers that are clients of those investment firms. Exhibit 1.2
7 EFAMA Market Insights – The European ESG Market At End Q1 2021 – Introducing the SFDR
8 According to Morningstar and other independent sources Morningstar has the most comprehensive data collection of UCITS funds in the market.

Products that have met certain ESG criteria with respect to the investment process or objective may be disclosed under Article 8 (often referred to as 'light green' products) or Article 9 ('dark green' products). All products which do not meet these criteria are disclosed under Article 6, and often considered as 'other' products.

1. Article 8 products consider or promote environmental or social characteristics in the **pursuit of other financial objectives**.
2. Article 9 products seek to make a positive impact on society or the environment through sustainable investment and **have a non-financial objective at the core of their offering**.

The following graph shows the evolution of Article 8, Article 9 and other funds since Q2 2021.



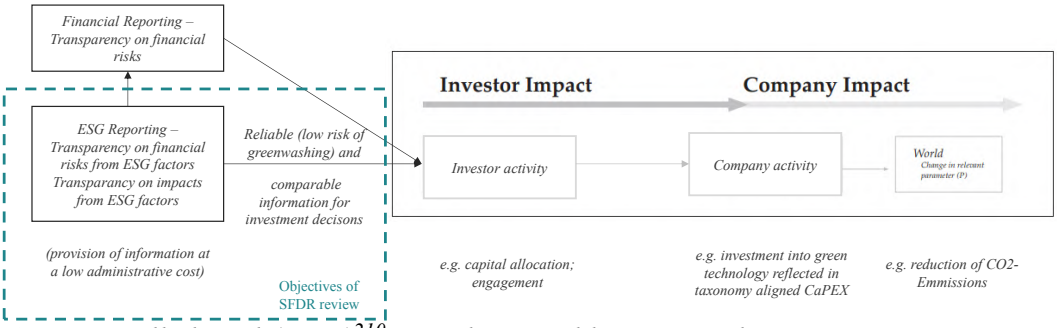
Source: Morningstar

Historical development: The total market size for EU funds is fluctuating around EUR 9.1 trillion since Q2 2021 with Art. 8 Funds averaging EUR 5.2 trillion (57%), Art. 9 funds 0.3 trillion (3%) and other 3.6 trillion (40%).

2. Benefits linked to the SFDR regulation

2.1. Transparency for investors to understand and compare ESG characteristics

While the two main specific objectives of this legislative review are 1) an increase of transparency, i.e. the improvement of end-investors' ability to understand and compare sustainability-linked financial products as well as 2) a low administrative burden for the provision of such transparency, i.e. simplifying and reducing the sustainability-related administrative requirements of the framework for financial market participants, there are further impacts that go beyond these objectives. The following graph illustrates potential objectives that go beyond the cost-effective provision of transparency (outside the dotted box) as proposed in the academic literature.



Source: Kölbel et al (2020)[210] *complemented by own analysis.*

To put the legislative review of the SFDR into such a broader context, the paragraphs below provide scientific evidence for 1) investors demand for transparency as well as 2) indications of real-world impacts linked to sustainable investment.

2.2. Investor demand for information on ESG characteristics

As also shown in Annex 10, investors increasingly demand that their investments not only yield financial returns, but also social and environmental returns. More and more economic papers provide evidence for this, e.g.:

- Hartzmark and Susmann (Do investors value sustainability? A natural experiment examining ranking and fund flows, The Journal of Finance 74 (6), 2789-2837) show in a natural experiment approach based on Morningstar mutual fund data that when a fund's sustainability rating improved (e.g. from one 'globe' to five 'globes'), it experienced a positive net flow of funds. Conversely, a decrease in a sustainability rating led to net outflows.
- Barber, Brad M., Adair Morse, and Ayako Yasuda, 2021 (Impact investing, Journal of Financial Economics 139 (1), 162-185) document that investors derive nonpecuniary utility from investing in dual-objective VC funds, thus sacrificing returns. They show both that they ex ante (in random utility/willingness-to-pay (WTP) models) accept 2.5-3.7 percentage points of lower internal rates of return for impact funds and ex post actually earn 4.7 percentage points (ppts) lower internal rates of return as compared to traditional VC funds.
- Bauer, R., Ruof T., and Smeets P, 2021: ("Get real! Individuals prefer more sustainable investments", Review of Financial Studies 34 (8), 3976–4043) run two field surveys (n = 1,669, n = 3,186) with a pension fund that grants its members a real vote on its sustainable-investment

[210] Kölbel J.F., Heeb F., Paetzold F. and Busch T.: Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact, Organization and Environment 2020, Vol. 33(4) 554-574.

policy. Participants' strong social preferences are demonstrated by a high demand reflected in two-thirds of participants are willing to expand the fund's engagement with companies based on selected sustainable development goals, even when they expect engagement to hurt financial performance. Support remains strong after the fund implements the choice.

- Heeb, Kölbel, Paetzold, Zeisberger (2022): Do Investors care about impact?: The paper assesses how investors' willingness-to-pay (WTP) for sustainable investments responds to the social impact of those investments, using a framed field experiment. While investors have a substantial WTP for sustainable investments, they do not pay significantly more for more impact. This also holds for dedicated impact investors. When investors compare several sustainable investments, their WTP responds to relative, but not to absolute, levels of impact. Regardless of investments' impact, investors experience positive emotions when choosing sustainable investments. The findings suggest that the WTP for sustainable investments is primarily driven by an emotional, rather than a calculative, valuation of impact. (JEL D62, G11, G41, Q56)

The European Security Markets Authority (ESMA) identifies in a recent study[211] covering both UCITS and Alternative Investment Funds that the proportion of funds with ESG-related names increased significantly from less than 3% before 2015 to about 9% by mid-2024. Fund names are most likely the first piece of information investors encounter about a fund and are thus a crucial signal of the fund's strategy and aims. Therefore, the authors analyse in a panel event study the impact of adding ESG terms to a fund's name on funds flows. The results indicate that adding an ESG term has a significant impact on fund inflows during the five quarters following the name change with a cumulative increase in inflows over the first-year amounting to 8.9%.

While the results above, together with the findings in Annex 10, provide clear and quantifiable indications of investor demand for ESG information and also a change in the pattern of capital flows linked to higher transparency, the objective of the review of the SFDR aims in the first place to increase the quality of such transparency for investors and their ability to understand and compare ESG characteristics (specific objective 2). As the degree of understandability of such information can only be established once the technical details of the disclosures will be fixed, which will take more time and will be performed at level 2 accompanied by dedicated market and consumer studies that will help to develop the disclosures in a way that is most consumer-friendly, the exact benefit of an increased transparency cannot be measured or quantified at this stage. As such the benefit would result from a higher precision, showing ideally ESG information in a reliable manner (i.e. avoiding greenwashing) and making sure that it is correctly understood and integrated into the investment decision. This will help allocating capital in line with the preferences of investors, instead of allocating it either to companies that pretend to score high on ESG topics (greenwashing) or that are misrepresented to perform well on ESG due to a misinterpretation of unduly complex ESG disclosures.

2.3. Real world impacts including the transition

The ultimate objective of providing transparency on ESG information for financial investments translates also into a real-world impact that is expected to materialise through additional investment into technology that improves the environmental, social or governance characteristics of companies. While this goes also beyond the scope of this impact assessment, we provide here examples to put the impact assessment into a broader context and to show the big picture evidence from the academic literature on real-world impacts:

[211] Amzallag, A., Brouwer N., Mazzacurati J. and Piazza F. (2025): ESMA TRV Risk Analysis: Fund names: ESG-related changes and their impact on investment flows.

- The "Platform on Sustainable Finance report: Monitoring Capital Flows to Sustainable Investments" aims to provide insights into how capital is being allocated towards sustainable investments within the European Union. The report focuses on tracking and measuring the capital flows directed toward environmentally sustainable economic activities (aligned with the EU Taxonomy). Specifically, Taxonomy-aligned CapEx reported in 2023 increased from EUR 186 billion in 2022 to EUR 250 billion in 2023. This represents an additional investment of EUR 64 billion in Taxonomy-aligned activities year-on-year.[212]

There is also evidence that establishes a link between sustainable investments and real-world outcomes beyond the EU, e.g. the reduction of CO2 emissions:

- In a paper published in 2023 the authors Bakry et al. investigate the relationship between green finance and environmental performance in 76 developing countries from 2010 to 2019. The study finds that green finance and renewable energy significantly reduce carbon emissions, emphasizing their importance for environmental sustainability. Additionally, the research confirms the Environmental Kuznets Curve, indicating that CO2 emissions initially increase with economic growth but eventually decline, and it highlights the rise in emissions due to urbanization. The findings suggest policy recommendations to further promote green finance and renewable energy to enhance environmental performance in developing regions[213].
- The authors Huang et al. explore the impact of green finance on green innovation in China's provinces from 2009 to 2017 in their 2022 published paper "impacts of green finance on green innovation: A spatial and non-linear perspective". The study finds a significant positive correlation between green finance and green innovation. Both direct and indirect effects of green finance positively influence green innovation locally and in neighbouring areas. However, the effectiveness of green finance decreases as environmental regulation intensity rises. The study suggests leveraging the broader influence of green finance and green innovation to balance regional sustainable development while maintaining appropriate regulation levels[214].
- In a paper published in 2023 the authors Udeagha and Muchapondwa examine the role of green finance and financial technology (fintech) in advancing environmental sustainability in the BRICS region from 1990 to 2020, highlighting the challenge of reducing reliance on fossil fuels and the region's untapped renewable energy potential. It finds that green finance, fintech, and energy innovation support carbon neutrality goals, while natural resources rent and economic growth impair environmental quality, aligning with the Environmental Kuznets Curve hypothesis. The study identifies bidirectional causality between CO2 emissions and green finance, fintech, and natural resources rent, with unidirectional causality from GDP and energy innovation to emissions. The paper recommends that BRICS nations enhance green financial products and expand green credit opportunities to promote sustainability[215].
- In their 2025 published paper "Research on the impact of green finance on regional carbon emission reduction and its role mechanisms" the authors Li et al. examine how green finance policy facilitates the transition to a low-carbon economy in China, analysing 270

[212] Platform on Sustainable Finance (March 2025): Financing a clean and Competitive Transition. Monitoring Capital Flows into Sustainable Investments, Final Report, Table 1, page 21.
[213] Is green finance really "green"? Examining the long-run relationship between green finance, renewable energy and environmental performance in developing countries - ScienceDirect
[214] Impacts of green finance on green innovation: A spatial and nonlinear perspective - ScienceDirect
[215] Green finance, fintech, and environmental sustainability: fresh policy insights from the BRICS nations: International Journal of Sustainable Development & World Ecology: Vol 30, No 6

cities from 2010 to 2021 using the double debiased machine learning model. It finds that green finance significantly reduces regional carbon emissions by supporting green technology innovation and optimizing industrial structures. The effects are more pronounced in the eastern region and non-resource-based cities compared to central and western regions and resource-dependent cities. Additionally, policies like "Broadband China," information consumption pilots, and big data zones enhance the impact of green finance on emission reductions. The study provides insights and policy support for leveraging green finance to advance sustainable economic development[216].

- The authors Meo and Karim investigated the relationship between green finance and CO2 emissions in the top ten economies supporting green finance in their paper "The role of green finance reducing CO2emissions: An empirical analysis" published in 2022. This research confirms that green finance generally reduces CO2 emissions, though the impact varies based on market conditions and country-specific circumstances. The findings suggest that green finance is an effective financial strategy for decreasing CO2 emissions, with its effects influenced by variations in market conditions and the specific contexts of each country[217].
- In a 2024 published study Meryem Filiz Bastürk explores the impact of green finance on carbon emissions globally, in light of increased environmental awareness through frameworks like the sustainable development goals and the Paris Agreement. Using the system generalized method of moments, she analyses data from 48 countries between 2017 and 2022. The findings demonstrate that green finance, particularly through green bonds, significantly reduces carbon emissions, with a 1% increase in green bonds leading to a 0.012% decrease in emissions[218].

3. Description of respondent sample with cost information

One of the two specific objectives of the SFDR review is keeping the administrative burden for providers of financial products in check. Hence, it is important to establish first a baseline that shows an estimate of the administrative burden linked to the SFDR in the EU.

3.1. Source of information

As outlined in Annex 2, the Commission performed a targeted stakeholder consultation on the SFDR in the period 14 September 2023 - 22 December 2023. As part of this consultation, respondents were asked to report their one-off and recurrent costs related to SFDR disclosures.

3.2. One-off and recurrent costs

What is meant by one-off and recurrent costs? One-off costs are costs that are incurred only once by businesses that need to adapt to a new or amended piece of legislation or regulation. In the context of the SFDR they cover internal and external costs of financial market participants and financial advisers (or consolidated groups of such entities) for familiarising themselves with the new regulatory landscape and for updating internal processes and IT-systems accordingly. Recurrent costs occur after the one-off adaptation process is finished and cover annual costs for product and entity level disclosures. While a new product launch involves also certain one-off costs from a product perspective (e.g. registration, development of marketing material, preparation of

[216] Research on the impact of green finance on regional carbon emission reduction and its role mechanisms | Scientific Reports
[217] The role of green finance in reducing CO2 emissions: An empirical analysis - ScienceDirect
[218] Does Green Finance Reduce Carbon Emissions? Global Evidence Based on System Generalized Method of Moments

pre-contractual disclosures, etc.), these costs are classified as recurrent from an entity perspective as new products are launched on a recurring basis, e.g. every year.

3.3. Administrative and substantive compliance costs

From a better regulation perspective, the one-off and recurrent costs are classified as administrative costs as the SFDR is a disclosure regime and the costs are linked to information obligations. Hence no additional compliance costs linked to changes in core business functions (beyond reporting and disclosure) apply for the SFDR.

3.4 Description of respondent sample

In total 17 respondents provided both one-off and recurring costs of SFDR disclosures.

The costs reported had to be decomposed to entity level and product level disclosures. For each respondent, the total reported costs were split in accordance with the reported entity-product level split. On average respondents reported spending about 74 percent for product level and 26 percent for entity level disclosures.[219]

Figure 1: Overview of replies

Number of respondents	Size	AUM million EUR	Sust. AUM million EUR	One-off cost EUR	Recurring c. EUR	product level in %	entity level in %
N=10	Large (>250 FTE	1 350 074	486 228	24 822 903	7 904 291		
N=7	SME (<=250 FTE)	47 641	5 661	3 873 870	1 986 787	73 94	27 6
TOTAL/ weighted average		**1 397 715**		28 696 773	9 891 078	**74**	**26**

Source: Stakeholder consultation

The 17 respondents with comprehensive cost information in the sample reported in total about EUR 29 million of one-off implementation costs (0.002% of their AUM) and EUR 10 million of annually recurring costs (0.001% of their AUM).

3.5. Representativeness of sample

The 17 respondents with comprehensive cost information (i.e. one-off and recurring costs as well as a split between entity- and product level disclosures) for the SFDR are representing about 9% of the market measured by AUM.

[219] There were additional respondents that reported the split of product and entity level disclosures and that were taken into account to calculate the average, while those respondents are not shown in the table as they did not provide all of the information displayed in the columns.

Description of group	Popu-lation	Sample
largest companies (AUM >= EUR 378 billion), representing top 20% AuM	3	2
2nd largest companies (EUR 378 billion > AUM >= EUR 155 billion), repr. 20% AuM	10	3
3rd largest companies (EUR 155 billion > AUM >= EUR 72 billion), repr. 20% AuM	19	2
4th largest companies (EUR 72 billion > AUM >= EUR 19 billion), repr. 20% AuM	61	3
5th largest companies (EUR 19 billion > AUM) in the population,), repr. 20% AuM	1 760	7
Total	**1 853**	**17**

Source: Population: Morningstar and sample obtained in open public consultation.

The table above shows companies of each size bucket are represented in the sample and also in the Morningstar population.

Furthermore, a decomposition into the classical categories of large companies and SME shows that both large and SME companies are represented in the sample and in the Morningstar population and data of both groups is hence considered in the cost estimations.

Description of group	Morningstar population	Sample
Large companies[220] (AUM >= EUR 25 billion), representing about 80% of AUM	69	10
SME companies (EUR 25 billion < AUM) in the population, representing 20% of AuM	1 784	7
Total	**1 853**	**17**

Source: Sample obtained in open public consultation.

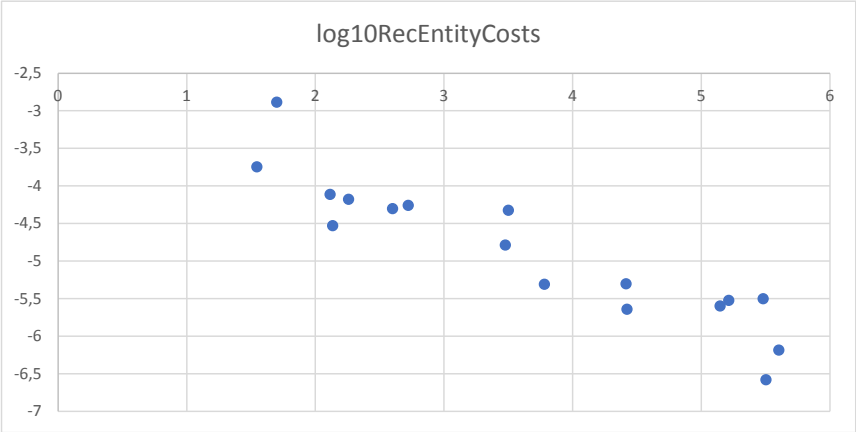
3.6. Initial analysis of cost sample

An analysis by size has shown that there are strong fixed cost degression effects, meaning that large financial market participants spend significantly lower percentages of their AUM on SFDR disclosures.

If both the cost information in % of AuM and the AuM were plotted on a logarithmic scale, an approximately linear relationship could be established. This means, moving for one unit on the x-axis, i.e. increasing the AuM by a factor of 10, led on average to a decrease of the costs expressed as a share of AuM by about 2/3rds or 67%. E.g. if an asset manager with EUR 40 000 million of AUM has costs of 7%, the costs decrease by about 2/3rd to about 2% if the asset manager grows by a factor of 10, i.e. to EUR 400 000 million of AuM.

[220] AUM is the only dimension that we have available for the market sample, whereas the SME definition (that is designed rather for real economy companies and not financial companies) is based on number of employees, turnover and balance sheet total. For the sample obtained in the stakeholder consultation, an SME classification by employees has been requested (with large > =250 employees and SME below that threshold). For that sample companies that are SME (by number of employees) had typically AuM <= 25 000 million (with only one exception in the sample). Hence, this cut-off value has been used to identify SME in the Morningstar population (that did not show an employee-based SME classification for the fund providers covered).

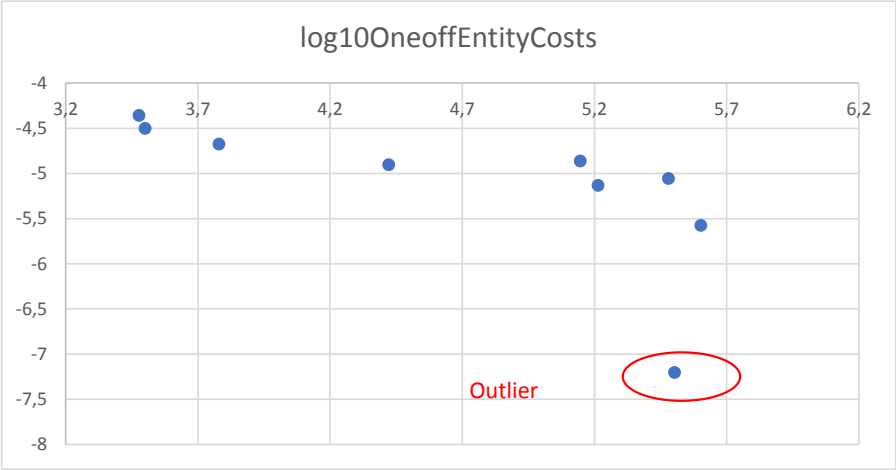
Figure 2: Recurring entity level costs



$$\log_{10} costs\% = a + b \cdot \log_{10} AUM$$

a=	-2.68050985
b=	-0.60413691
R Square	0.846639718
Standard Error	0.383187686
Observations	17

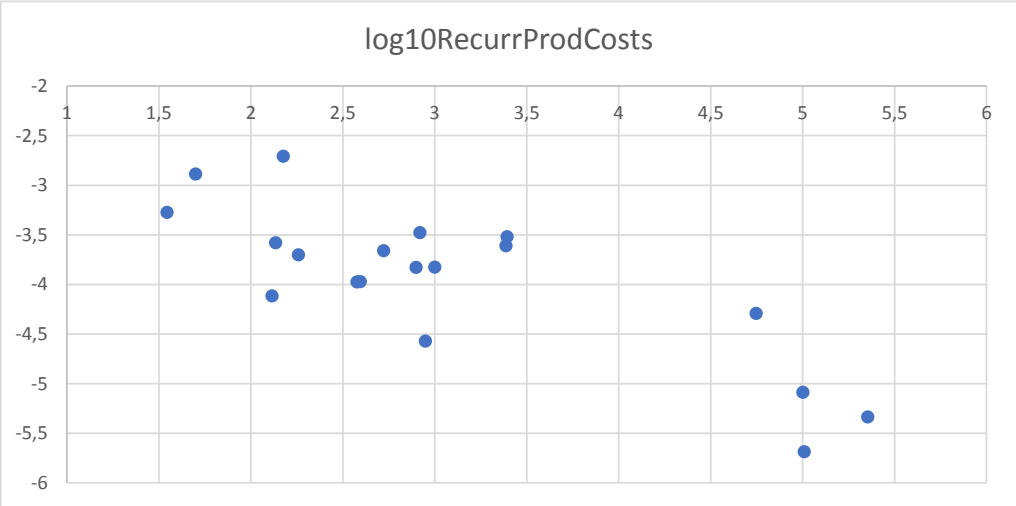
Figure 3: One-off entity level costs



$$\log_{10} costs\% = a + b \cdot \log_{10} AUM$$

a=	-3.2145606
b=	-0.378026
R Square	0.678516
Standard Error	0.38652
Observations	15

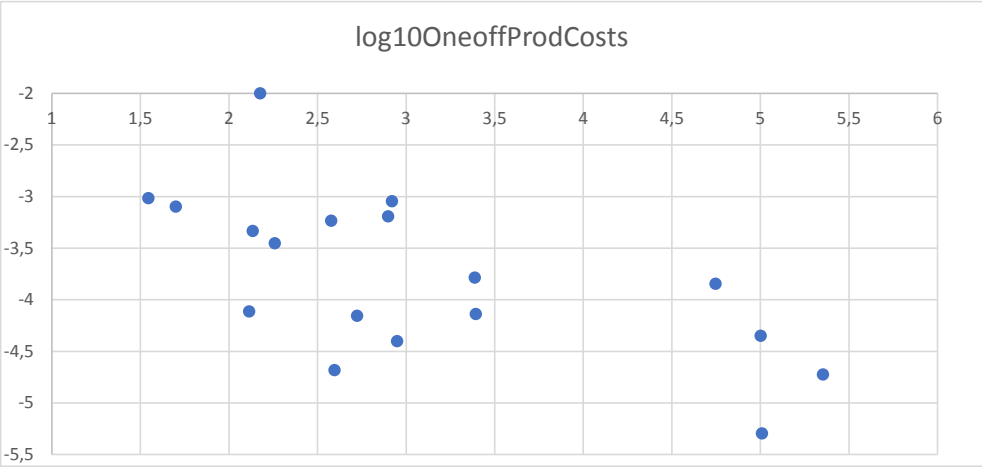
Figure 4: Recurring product level costs



$$\log_{10} costs\% = a + b \cdot \log_{10} sustAUM$$

a=	-2.4189734
b=	-0.4836461
R Square	0.61516
Standard Error	0.426611
Observations	18

Figure 5: One-off product level costs



$$\log_{10} costs\% = a + b \cdot \log_{10} sustAUM$$

a=	-2.60399705
b=	-0.36264267
R Square	0.313470364
Standard Error	0.618120494
Observations	17

Based on the sample cost observations, a regression analysis has been performed to determine a cost function that estimates the relative costs (expressed as a percentage of AUM) as a dependent variable of AUM for entity level disclosures and of sustainable AUM (i.e. SFDR Art. 8 disclosing

funds plus Art. 9 disclosing funds) for product related disclosures. The methodology varies for entity and product level disclosures as entity level disclosures apply to all financial market participants whereas product level disclosures apply only to financial market participants disclosing either under Art. 8 or Art. 9.

3.7. Baseline scenario and application of the standard cost model[221]

The standard cost model assumes that an entity has to fill out a form to provide a disclosure and that the effort needed to provide this disclosure is independent from the entity-size and other characteristics of the business. This means that the costs of disclosure are approximately identical for all entities.

Number of entities affected	x	Frequency of administrative action	x	Tariff per hour	x	Time in hours	+	Out-of pocket expenses

Source: Tool #58 EU Standard Cost Model of the Better Regulation Toolbox July 2023[222]

If this assumption was applicable, it would be possible to pool the cost observations and to take e.g. the average cost and multiply it with the number of entities in the market and the frequency of disclosing information. However, as demonstrated in the previous section this is not the case for the SFDR disclosures and the costs vary by type of entity, in particular with the size of the entity.

The following methodological approach has therefore been taken to estimate the administrative burdens:

Estimate of SFDR related disclosure costs as a function of the assets under management linked to the disclosure[223]	Using the estimated cost function for each fund that was part of the EU market according to the Morningstar database, estimate SFDR related disclosure costs	Aggregation of the costs for all funds to obtain an estimate of the SFDR related costs for the EU market

(1) Estimate of an SFDR related disclosure costs: we have collected a sample of costs (N=17) for product- and entity-related disclosures from the replies received in the stakeholder consultation. The replies covered all essential elements of disclosure preparation including internal costs for personnel and IT as well as external costs for data providers and consulting. From this sample, using a statistical regression model, a cost function has been estimated for the following cost types:
   - One-off costs product level disclosures
   - Recurring costs product level disclosures
   - One-off costs entity level disclosures
   - Recurring costs entity level disclosures

(2) The database Morningstar provides data for assets under management of funds that are obliged to disclose under the SFDR for the whole EU market and allows for a drill-down to the funds

[221] This section expands on Annex 4 'Analytical methods'

[222] https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation/better-regulation-guidelines-and-toolbox_en

[223] For the estimation function see section 3.6. above.

level, i.e. to aggregate the AuM per fund. The four cost functions for the four cost-types mentioned above (Figure 2 to Figure 5) have been used to estimate the one-off and recurring costs for entity and product-level disclosures as a function of AuM for each fund in the EU market.

The costs have been aggregated for the EU market by summing the individual estimates over all funds that were recorded by Morningstar.

Table 2: Cost estimate one-off and recurring costs for product and entity level disclosures

AUM	Sustainable AUM (Art. 8 & Art.9)	Recurring cost entity level discl.	one-off cost entity level discl.	Recuring cost product level discl.	one-off costs product level discl
million EUR	million EUR	million EUR	million EUR	million EUR	million EUR
10 261 600	6 110 400	56	120	190	380

Source: Stakeholder consultation, Morningstar and own calculations

The table above summarizes the result for the costs estimated for the European market. We estimate that financial market participants have spent one-off implementation costs amounting to EUR 120 million for entity level disclosures and EUR 380 million for product level disclosures under the SFDR. Furthermore, we estimate annual recurring costs of EUR 56 million for entity-level and EUR 190 million for product-level disclosures. The recurring costs are assumed to constitute the costs of the baseline scenario.

3.8. Role of the omnibus proposal for the baseline scenario

Since 2021, the companies that have to disclose information under the SFDR have operated in an environment with data gaps, that have been filled by data providers and ESG rating agencies either with information that has been manually requested from the investee companies via questionnaires or if not available with estimates, e.g. with statistical estimates obtained from companies operating in a similar industry, of similar size, in a specific region, and other comparable characteristics. The data situation has improved over time. An analysis performed by the Joint Committee of the European Supervisory Authorities (ESMA, EBA and EIOPA) in 2024, reproduced in the table below, shows that key mandatory principle adverse indicators that are relevant for the SFDR are increasingly available with (green >80% median coverage; red <=20% low coverage; yellow 20-80% medium coverage)[224].

Mandatory Principal Adverse Indicators (PAI) and their availability			
Coverage in % Art 8; Art 9	Climate and other environment indicators	Coverage % Art 8; Art 9	Social and governance indicators
88; 94	GHG Emissions (Scope 1,2,3 & Total)	92; 96	Lack of processes and mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines
89; 94	Carbon Footprint	88; 94	Violations of UN Global Compact principles and OECD Guidelines
91; 94	GHG Intensity	20; 16	Gender pay gap
90; 95	Fossil fuel sector	93; 96	Exposure to controversial weapons

[224] See also Annex 11, Section 3.1, Box 12 on how this compares with the past, confirming the relatively better availability of e.g. indicators such as exposure to fossil fuels and GHG emissions and the relatively poorer availability of those referring to gender pay gap and emissions to water. Improvement can be seen in some e.g. biodiversity.

64; 65	Share of non-renewable energy consumption	87; 93	Board gender diversity
27; 45	Share of non-renewable energy production		
88; 95	Activities negatively affecting biodiversity		
4; 7	Emissions to water (tons)		
42; 45	Hazardous waste ratio/ radioactive waste ratio		

Source: Joint Committee of the European Supervisory Authorities, JC-2024-69: Principal Adverse Impact disclosures under the Sustainable Finance Disclosure Regulation

The CSRD (original and post-omnibus timetables below) in its original (pre-omnibus scope) would have improved the data availability with coverage of European investees covering both listed and unlisted large companies as well as certain SMEs (parents of large groups).

The timeline below shows that public interest entities (PIEs), i.e. those companies that are the investees, that to a major extent constitute the portfolio population of the funds that are subject to the SFDR would have started to report in Q1 2025, which was not postponed by the Omnibus proposal[225].

	Wave 1 - 2024 (reporting 2025)	Wave 2 - 2025 (reporting 2026)	Wave 3 - 2026-2028 (reporting 2027-29)
	Public interest entities (>500 employees)[226]	Large undertakings	SME undertakings
New timeline	No stop the clock rule; same timeline	Postpone by 2 years	
New scope	Remove large midcaps (with <1000 employees)	Remove Large midcaps (with <1000 employees)	Remove
SFDR relevance	High, investees of UCITS, Bond and Money Market funds	Low, typically bank financed, relevant as investees of certain alternative investment funds, e.g. private equity	

Source: European Commission, SWD (2025) 80, Omnibus proposal.

The SFDR data requirements concern mainly listed companies as it regulates disclosures of enterprises offering investment products consisting largely of listed investees with the exception of alternative investment funds and venture capital funds that hold also private non-listed assets. According to ECB data Euro-area Non-Financial Corporations had outstanding listed debt of EUR 1.6 trillion[227] and listed shares of EUR 7.6 trillion[228] by the end of 2023, of which investment funds held 34% and 24% respectively[229], a total of EUR 2,4 trillion of listed securities. Expressed as a share of EU assets under management of about EUR 16 trillion, this represents about 15%. These investees are subject to CSRD reporting.

CSRD wave 1 companies, i.e. companies that were subject to the NFRD and started reporting under the CSRD/ESRS for fiscal year 2024 (i.e., publication in 2025) are thus key investees for SFDR

[225] European Commission, SWD (2025) 80, Omnibus proposal.
[226] Public interest entities as defined in Article 2(1) of the Accounting Directive (2013/34/EU) are entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market, insurance undertakings and credit institutions as well as national transposition entities, i.e. entities that are added by EU member states due to local definitions of public interest entities.
[227] CSEC.M.N.I9.W0.S11.S1.N.L.LE.F3.T._Z.EUR._T.M.V.N._T | ECB Data Portal
[228] CSEC.M.N.I9.W0.S11.S1.N.L.LE.F511._Z._Z.EUR._T.M.V.N._T | ECB Data Portal
[229] EFAMA Asset Management Report 2024, p. 28.

reporting. These companies will not be affected retroactively by the planned scope reductions ("stop-the-clock" or omnibus proposals) as these reductions primarily impact companies covered in later CSRD waves. Rather, a replacement can be expected of currently either estimated values or data collected with questionnaires by data from audited sustainability reporting for about 15% of the investee universe. This data collection step would usually be performed by data providers, which do continue providing ESG data to financial market participants with or without the omnibus and we do not expect that this improvement of quality for certain datapoints would have significant impact on the data provider fees charged to financial market participants.

3.9. Who is bearing the cost of the SFDR implementation?

While in absolute terms the amounts reported for one-off and recurring costs in our sample for the SFDR implementation seem high (ranging up to EUR 29 million of one-off investment and up to EUR 10 million of annual recurring costs for one FMP), in relative terms, the costs, e.g. for large FMP (with AuM > EUR 25 billion) that dominate the market in terms of product volume (about 75% in the Morningstar funds population), are in a range of 0.002-0.15 basis points (one basis point is only 1/100 one hundredth of one percentage point) for annual recurring costs and 0.01 to 0.46 basis points for one-off costs, that are usually written off over several years by businesses. This indicates that even if the fees were 100% passed on to end-investors, they should not face substantial changes in the transaction fees. This is in line with observations of ESMA that has shown, e.g. that the fees of UCITS funds have not significantly changed in the period 2021-2023.[230] Furthermore ESMA has shown in the same publication that there are no significant differences in the fees charged for ESG UCITS and general UCITS funds.

To gauge further the economic significance of these costs as compared to the benefits, if these amounts were instead used to directly reduce CO2-emmissions, taking into account that EEA reports that the EU-27 countries emitted around 2 907 204 kilo tonnes of CO2 in 2020[231] and a price of about 96.3 EUR per tonne of CO2[232], they would achieve annual savings of 0.1% Co2 emissions. In other words, it suffices that SFDR achieves an annual reduction of 0.1% in Co2 emissions in order for the associated costs to be justified.

3.10. Estimation of cost impacts of the preferred set of options

In the following, we estimate the cost impacts of the preferred set of options. For this, we split first the costs obtained in the evaluation for the baseline scenario into costs for SME and Large companies.

[230] ESMA Market Report on Costs and Performance of EU Retail Investment Products 2024 and ESMA Market Report Annexes on Costs and Performance of EU Retail Investment Products 2024.
[231] See EEA greenhouse gases – data viewer: EEA greenhouse gases — data viewer | European Environment Agency's home page.
[232] Worldbank Carbon Pricing Dashboard: https://carbonpricingdashboard.worldbank.org/compliance/price

Table 3: Administrative costs baseline scenario and cost impact preferred options[233]

•	• One-off costs		• Recurrent costs per annum	
•	• **SME (<= €25b AuM)**	• **Large (> €25b AuM)**	• **SME (< =€25b AuM)**	• **Large (> €25b AuM)**
• Entity level disclosures baseline	• €70m	• €50m	• €43m	• €13m
• Change with option 1.2 **Abolish entity level disclosures**	• €5m • (+7%; N=1)	• €0.5m • (+1%; N=1)	• - € 43 m • (-100%; N=1)	• - € 13 m • (-100%; N=1)
• Product level disclosures baseline	• €200m	• €180m	• €120m	• €70m
• Change with option 2.2 **Significantly reduce product level disclosures**	• + €336m • (+170%; N=1)	• + €14m • (+8%; N=2)	• - €35m • (-50%; N=2)[234]	• - €20m • (-50%; N=2)[235]
• Change with option 3.1 Product Categorisation	• + €246m • (+150%, N=2)	• +€25m (+14%; N=3) •	• +€ 19m • (+50%; N=2)	• +€5m • (+15%; N=3) •
• TOTAL – • All options combined	• + €590m (rounded)	• + €40m (rounded)	• - €60m (rounded)	• - €30m (rounded)
• Annualised one-off costs	• €69m	• €5m	• -€60m	• -€30m

Source: Stakeholder consultation and own calculations. Results give only indications of potential costs and are to be interpreted with caution as they are based on extremely small samples, in particular for SMEs where the simplification should bring most benefits; the one-off costs might be overestimated as the one/two respondents on which the estimation is based assume a certain minimum fixed amount that needs to be spent to implement the changes that is even higher than the initial one-off costs.

The cost calculations presented above are only rough indications as most respondents were not able to estimate costs as at the preparatory stage of level 1, including without the technical details to be specified in level 2. Therefore, only anecdotal evidence could be collected that can give a rough indication of the cost impacts of this regulation. The results suggest that SMEs (which would choose to be active in offering ESG products) might expect significant one-off costs that can be offset in the long-term by corresponding cost savings, whereas large businesses have only limited one-off costs and are likely to set these investments off quickly (after about 2 years). As part of the level 2 work, European Supervisory Authorities should verify the plausibility of these estimations once detailed proposals have been worked out, and if respondents indicate that they expect significantly different costs, the cost implications should be taken into account when deciding on the preferred option to make sure that the objective of administrative simplification and burden reduction is met.

[233] Whereas the boxes containing the baseline entity-level and product-level costs are based on a more reliable sample and estimation of costs with the current regime, very little data is currently available to derive cost-estimates associated with the changes, notably regarding the creation of product categories as well as adjusted disclosures.

[234] We have received two replies indicating a full range of 20%-50% of cost savings. Given that the intended simplification under option 2.2 would significantly reduce product disclosures, we assume that a saving at the higher end of the range is justified.

[235] ibid

3.11 Summary costs, benefits and one-in-one-out calculation

Overview of costs and benefits identified in the evaluation					
Measure	**Cost Benefit Type***	**Group Affected****	**Frequency**	**Amount**	**Description**
Requirement to publish entity level disclosures	Direct benefit	Citizens that are retail investors and Businesses acting as professional investors	Recurrent	qualitative	Entity-level disclosures of FMPs provide information on their policies on integrating sustainability risks, how they consider principal adverse impacts on sustainability factors, and how their remuneration policies align with sustainability objectives. This can help investors to choose products from those FMPs that align best with their sustainability preferences. Professional investors benefit from the ability to perform due diligence and select partners or products that align with their clients' ESG mandates or their own institutional policies
	Direct admini-strative costs	Small Businesses	One-off	€70m	Internal Personnel, IT implementation and external advice to familiarise with and implement entity-level disclosures
		Large Businesses	One-off	€50m	Internal Personnel, IT implementation and external advice to familiarise with and implement entity-level disclosures
		Small Businesses	Recurrent	€43m	Ongoing annual internal and external cost to maintain entity-level disclosures
		Large Businesses	Recurrent	€13m	Ongoing annual internal and external cost to maintain entity-level disclosures
Requirement to publish product level disclosures	Direct benefit	Citizens that are retail investors and Businesses acting as professional investors	Recurrent	**Amount**	Product-level disclosures provide detailed, information according to common parameters on how each financial product integrates sustainability risks, considers adverse sustainability impacts, and aligns with environmental or social objectives. Retail investors can use product-level disclosures to match investments with their personal sustainability goals, focusing on the specific ESG characteristics or objectives of each product. Professional investors benefit from the granularity of data to conduct due diligence, tailor investment strategies, and meet client mandates. Product-level disclosures provide the most relevant information for investment decisions, as retail investors typically invest in individual products rather than at the entity level. The disclosures include pre-contractual and periodic information, helping investors monitor investments over time.
	Direct admini-strative costs	Small Businesses	One-off	€200m	Internal Personnel, IT implementation and external advice to familiarise with and implement entity-level disclosures
		Large Businesses	One-off	€180m	Internal Personnel, IT implementation and external advice to familiarise with and

Overview of costs and benefits identified in the evaluation					
Measure	**Cost Benefit Type***	**Group Affected****	**Frequency**	**Amount**	**Description**
					implement entity-level disclosures
		Small Businesses	Recurrent	€120m	Ongoing annual internal and external cost to maintain product-level disclosures
		Large Businesses	Recurrent	€70m	Ongoing annual internal and external cost to maintain product-level disclosures
Supervise entity and product level disclosures	Direct benefit	Citizens - retail investors and Businesses - professional investors	Recurrent	Not quantified	Supervision ensures that FMPs comply with the SFDR, which strengthens accountability for the claims made about sustainability. Effective supervision makes it harder for firms to engage in greenwashing
	Direct adjustment costs	Administrations	One-off	Not quantified	Costs for supervisors and NCAs to familiarise themselves with the new rules and implement new procedures (e.g. processes, IT-systems, databases)
	Direct adjustment costs	Administrations	Recurrent	Not quantified	Costs for ongoing administrative procedures linked to the supervision of the SFDR. According to the most recent Greenwashing reports of ESMA, about 80 FTEs are allocated to sustainability matters in NCAs that deal with market supervision of issuers and about 92 FTEs to supervisory and regulatory activities linked to investment management[236]. EBA determined that the competent authorities (CA) in banking allocated only limited resources to sustainability issues with 9 CAs out of 30 with 3 or more FTE; 13 two or less; and 9 with no resources or no information[237]. EIOPA reports about 30 FTEs in total that are performing sustainability-related tasks.[238]

[236] ESMA (June 2024): Final Report on Greenwashing: ESMA36-287652198-2699
[237] EBA (September 2024): Report on greenwashing monitoring and supervision.pdf and EBA (May 2023): progress report on greewnwashing.pdf.
[238] EIOPA(June 2024): Advice to the European Commission on greenwashing risks and the supervision of sustainable finance policies

– I. Overview of Benefits (total for all provisions) – Preferred Option				
– *Measure*	– *Group affected*	– *Frequency*	– *Amount*	– *Comments*
– *Direct benefits*				
– Combination of all preferred options	– Small Businesses	– Recurrent	– -€60m	– Details see section 3.10.
– Combination of all preferred options	– Large Businesses	– Recurrent	– -€30m	– Details see section 3.10.
– *Indirect benefits*				
– Combination of preferred options: 4) Abolish entity level disclosures 5) Significantly reduce Product level disclosures 6) Introduce categorisation system with 3 categories	–	–	– qualitative –	– **FMP (preparer perspective):** - **Reduce** the sustainability-related **administrative** requirements and complexity - Boost the competitiveness of Europe's financial sector by ensuring **conditions which make business easier** and help to deepen our single market for sustainability-linked financial products – **End-investor and distributor** (user perspective): - Improve end-investors' ability to understand and compare sustainability-linked financial products - Facilitate distribution along the investment chain - Increase consumers' confidence in financial products with sustainability claims by setting minimum standards (in line with the applicable ESMA

				guidelines on funds names)

Estimates are gross values relative to the baseline for the preferred option as a whole (i.e. the impact of individual actions/obligations of the preferred option are aggregated together);

• II. Overview of costs – Preferred option							
•		• Citizens/Consumers		• Businesses		• Administrations	
		• One-off	• Recurrent	• One-off	• Recurrent	• One-off	• Recurrent
• Action (a)	• Direct adjustment costs	• *none*	• *none*	• *none*	• *none*	• *Effort linked to familiarisation* [239]	• mixed[240]
	• Direct administrative costs	• *none*	• *none*	• *€74m**	• *-€90m*	• *none*	• *none*
	• Direct regulatory fees and charges	• *none*	• *none*	• *none*	• *none*	• *none*	• *none*
	• Direct enforcement costs	• *none*	• *none*	• *none*	• *none*	• *none*	• *none*
	• Indirect costs	• *none*	• *none*	• *none*	• *none*	• *none*	• *none*

** The EUR 74 million* is *the annualised value of one-off costs amounting in total to EUR 630 million (subject to the caveats in Table 3 of section 3.10), assuming that a loan has been issued to finance the one-off burden over a period of 10 years and an interest rate of 3%*

[239] Public administrations surveyed expect for the abolishment of entity-level disclosures no or limited additional effort (mainly to understand the new requirement), for the simplification of product level disclosures about 0.1-2 additional FTE in the first year and about the same additional FTE for the introduction of a product categories in year 1 to familiarise themselves with the new regulation and perform the required adaptation.

[240] The replies of authorities were mixed, many authorities could not assess the long-term consequences without seeing the final proposal, some authorities saw a long-term potential of saving effort up to 30% provided that the legal clarity, simplicity and objectivity will increase and ambiguity decrease; some authorities expected additional effort, e.g. due to the approval process of funds under the new regime.

III. Application of the 'one in, one out' approach – Preferred option(s)			
[M€]	**One-off** (annualised total net present value over the relevant period)	**Recurrent** (nominal values per year)	**Total**
Businesses			
New administrative burdens (INs)	€74m	€24m	€98m
Removed administrative burdens (OUTs)	€0m	-€110m	-€110m
Net administrative burdens*	**€74m**	**-€86m**	**-€12m**
Adjustment costs**	€0m	€0m	
Citizens			
New administrative burdens (INs)	€0m	€0m	€0m
Removed administrative burdens (OUTs)	€0m	€0m	€0m
Net administrative burdens*	**€0m**	**€0m**	**€0m**
Adjustment costs**	€0m	€0m	
Total administrative burdens***			**-€12m**

(*) Net administrative burdens = INs – OUTs;
(**) Adjustment costs falling under the scope of the OIOO approach are the same as reported in Table 2 above. Non-annualised values;
(***) Total administrative burdens = Net administrative burdens for businesses + net administrative burdens for citizens.

Relevant sustainable development goals

• IV. Overview of relevant Sustainable Development Goals – Preferred Option(s)		
• **Relevant SDG**	• **Expected progress towards the Goal**	• **Comments**
• SDG 13 "Climate Action" • SDG 6 "Clean Water and Sanitation" • SDG 7 "Affordable and Clean Energy" • SDG 9 "Industry, Innovation and Infrastructure" • SDG3 "Good Health and Well-being" • SDG 5 "Gender Equality"	• Initiative expected to help encourage investment flows contributing positively toward the identified SDGs	•

ANNEX 4: ANALYTICAL METHODS

Estimation of Administrative Costs and Burdens

For the estimate of the SFDR related costs for businesses that are classified as administrative costs in the Better Regulation terminology, the standard cost model (see Tool #58 EU Standard Cost Model of the Better Regulation Toolbox July 2023) has been used.[241] The data to perform the cost estimations has been taken from the stakeholder consultation and has been scaled-up for the whole European market. Please refer to section 3.7 in Annex 3 for a description of the details.

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[241] https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation/better-regulation-guidelines-and-toolbox_en

ANNEX 5: COMPETITIVENESS CHECK

1. Overview of impacts on competitiveness

Dimensions of Competitiveness	Impact of the initiative (++ / + / 0 / - / -- / n.a.)	References to sub-sections of the main report or annexes
Cost and price competitiveness	++	Sections 6, 7; Annex 3
International competitiveness	+	Sections 6, 7
Capacity to innovate	+	Sections 6, 7
SME competitiveness	+	Annex 12

2. Synthetic assessment

The combination of the preferred options presented in Section 8 have a positive impact across all the dimensions of competitiveness above.

On cost and price competitiveness, the options are expected to reduce compliance costs to a significant extent, as detailed in Annex 3. The options are set to help EU FMPs improve their cost competitiveness by addressing many of the identified undue burdens and excessive compliance costs associated with the status quo. The preferred option to alleviate burdens and costs of reporting will remove duplications and inconsistencies, facilitating market entry. The preferred option to set up a clear and coherent categorisation system for sustainability-linked financial products reflects current market practices to a large extent, entailing minimal adjustment costs compared to the alternatives. These costs are expected to be outweighed by the economic benefits of continued investment flows according to a simpler, clearer and more intuitive categorisation of products.

Given the EU's overwhelming market share for sustainable financial products globally, a positive impact is also to be expected on international competitiveness. The competitive position of EU FMPs and funds in launching and providing services in relation to sustainability-linked financial products would be further bolstered. Through lower costs arising from the removal of undue burdens and a simpler categorisation regime for products, the EU market for sustainable products can also be expected to grow, to help scale up the flow of private savings and investments into the real economy and its transition towards more sustainable economic practices. Given the dominant size of the EU market in this area, the categorisation regime can be expected to become a de facto global standard and contribute to attracting inward investment flows into the EU.

The market's capacity to innovate is also positively supported by reduced reporting burdens and clear product categories. Lower compliance costs can help free up FMPs' resources for product innovation. The criteria underpinning the categories leave room for flexibility allowing FMPs to design products according to diverse parameters, while providing the essential reassurance to retail investors about what their products can and cannot invest in. The criteria would be future-proof and allow to continue designing and innovating products according to emerging technological trends and evolutions in science and environmental policy. Overall, provided FMPs seize opportunities to design products in accordance with a simple categorisation system, increased funds toward private

sustainability-oriented innovations in the real economy can be expected to ensue, supporting the flow of additional private risk capital toward the twin green and digital transitions to finance the EU's long-term climate and competitiveness goals.

In terms of sectors which are most likely to be impacted, some negative effects could arise for those targeted by the PAB/CTB exclusions, namely tobacco, controversial weapons, and companies involved in human rights violations or heavily in fossil fuels. However, this would continue their treatment under PAB/CTB benchmarks, and would not apply beyond ESG-focused financial products. Non-ESG focused products could still fully include these companies at FMPs' and investors' discretion. Conversely, the creation of categories could support positive impacts notably in sectors associated with high levels of environmental and social progress (sustainable category), those undertaking meaningful improvement toward less harmful environmental or social practices (transition category), and those which can be accommodated in various other diverse ESG strategies (other ESG category). For instance, the sustainable category could further help boost investment in EU companies with Taxonomy-aligned activities, in key Taxonomy-eligible sectors such as renewable energies, transport, manufacturing and real estate[242]. For its part, the transition category could help facilitate investment toward a wide range of sectors for which meaningful transition-trajectories are most advanced or under development. For example, a key metric in this context would be the market-led Science-Based Targets initiative, which has gathered commitments from over 10000 companies across the world (53% from Europe), with the highest number in the services and manufacturing sectors[243]. Finally, the third category could encompass a variety of sectors pursuing diverse ESG strategies, and appeal notably to investors interested in a diversified product with clear ESG-based exclusions[244].

Finally, the initiative is also expected to have a positive impact on SME competitiveness. Together with the provisions of the Omnibus (i.e. removal of listed SMEs from the scope, value chain cap applicable to companies outside the CSRD to limit trickle-down effects, single voluntary standard for companies outside the CSRD), SMEs can benefit from the flow of funds and be included in products under a simple categorisation system, as well as from lower reporting and compliance costs incumbent on FMPs. While SMEs may typically not constitute a large share of the portfolios of investees within mainstream (UCITS) financial products, the simplification of disclosures and clear criteria underpinning categories could support some reallocation of portfolios toward greater inclusion of SMEs, including through greater clarity on the use of estimates and proxies. This could stem from addressing any bias in favour of larger listed companies from whom granular data is more available.

[242] Together with other recent steps to boost competitiveness taken to facilitate Taxonomy-reporting by companies under the Omnibus: "Commission to cut EU taxonomy red tape for companies - European Commission"

[243] https://sciencebasedtargets.org/ For example, a 2022 SBTi analysis of 205 companies which had made commitments demonstrated that these were reducing scope 1 and 2 emission at a faster rate than required: linear annual rate of 5.9% between target setting year and 2021, compared to minimum annual reduction of 4.2% required for meeting 1.5°C (Source: materials shared for 10 July 2025 ESMA transition finance workshop by a SBTi founding member organisation)

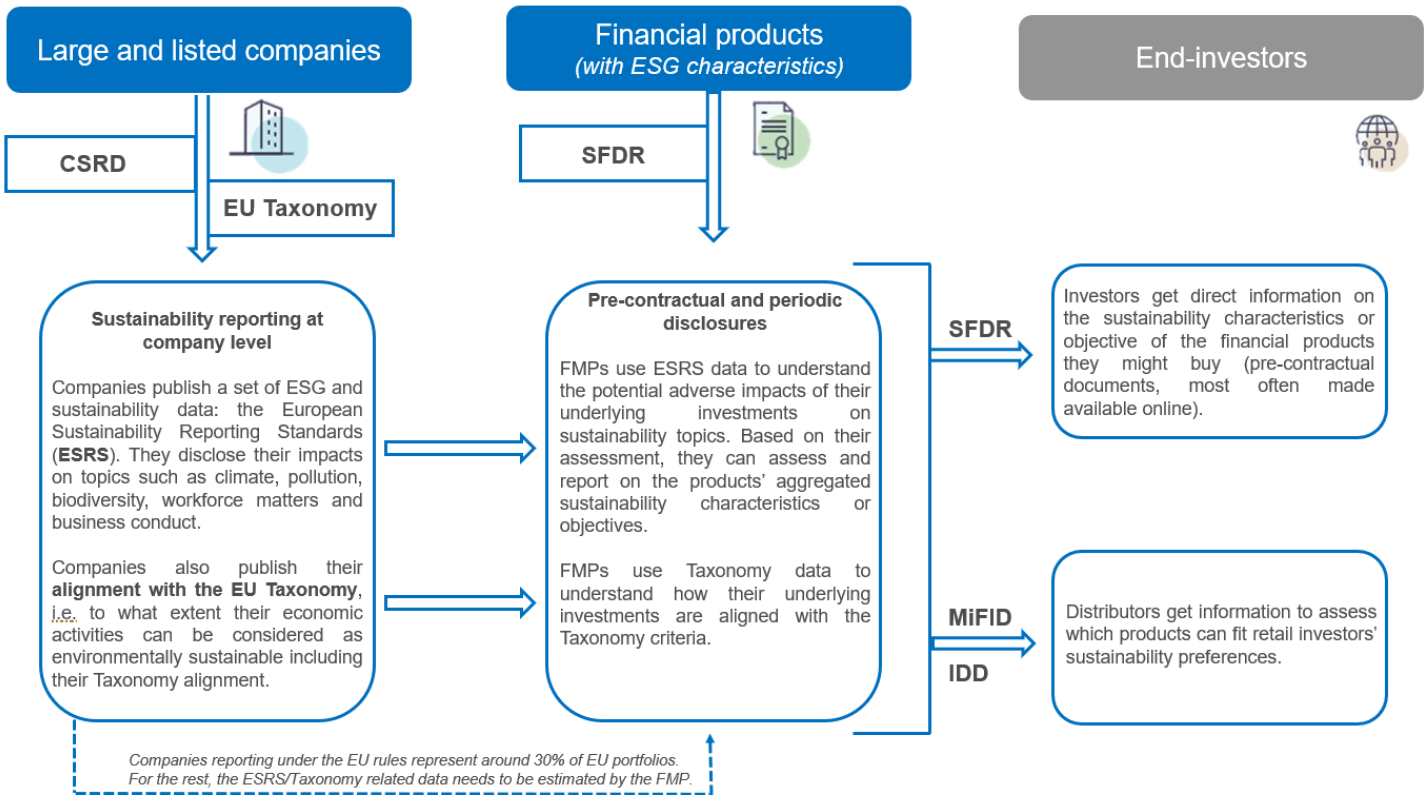
[244] More information on possible sectoral/company level impacts on funds' portfolios is also provided in Annex 8.

ANNEX 6: INTERACTIONS BETWEEN THE SFDR AND THE SUSTAINABLE FINANCE AND BROADER CORPORATE SUSTAINABILITY FRAMEWORK

This annex aims at explaining the interactions between the SFDR and the rest of the sustainable finance and broader corporate sustainability framework. It also highlights the specific considerations that need to be taken into account for the review regarding the links and necessary alignments between the SFDR and the CSRD, the EU Taxonomy Regulation, the Benchmark Regulation, CSDDD and the MiFID/IDD sustainability delegated act.

1. The EU sustainability disclosure regimes and tools that feed into the SFDR

Box 5: The flow of information: from companies to the financial sector to end investors



Corporate Reporting Disclosure Directive (CSRD)

<u>What is the CSRD</u>

The Corporate Sustainability Reporting Directive (CSRD) modernised and strengthened the rules concerning the disclosure of sustainability information by undertakings in response to the increased demand for corporate sustainability information and transparency. The existing CSRD requires that large undertakings and listed SMEs disclose information necessary to understand the undertaking's impacts on sustainability (ESG) matters, and information necessary to understand how sustainability matters affect

the undertaking's development, performance and position. The CSRD phases in the reporting requirements for different categories of undertakings.

The reporting requirements are specified in European Sustainability Reporting Standards (ESRS), which were developed in draft form by EFRAG and adopted by the Commission via Delegated Regulation 2023/2772.

How does it interact with the SFDR

FMPs rely on ESG information disclosed by investee companies under the CSRD (the 'European Sustainability Reporting Standards', or ESRS) to assess the principal adverse impacts (PAIs) of their investments. To this end, the ESRS mirrors the PAIs to ensure FMPs get the information needed.

However, the CSRD does not cover all entities/assets that FMPs invest in. For example, the CSRD does not apply to most third-country companies. In the EU, the CSRD currently applies to all large companies and all listed companies (including listed SMEs and non-EU companies listed in EU). It also applies to non-EU companies that generate more than EUR 150 million in the EU and have either an EU branch with turnover above 40 million or an EU subsidiary that is itself in CSRD scope. This scope represents on average 30% of EU portfolios. To bridge the data gaps, FMPs are using estimates.

In addition, the recent omnibus Commission proposal reduces the CSRD scope. Reporting obligations would apply only to large companies with more than 1000 employees (i.e. companies with more than 1000 employees and either turnover above EUR 50 million or balance sheet above EUR 25 million). Non-EU companies in scope would be reduced to the ones generating a turnover above EUR 450 million, with an EU branch threshold set at EUR 50 million and EU subsidiary threshold set at "large'. The ESRS are also expected to be streamlined.

Special considerations for the review: the disclosures and criteria need to take account of the upcoming loss of publicly available data from CSRD companies. The need to generate/buy estimates is expected to grow.

EU Taxonomy Regulation

What is the EU taxonomy

The EU Taxonomy provides a classification system of environmentally sustainable economic activities. It helps address the risk of greenwashing and supports investors in directing their capital towards the activities needed for the green transition. The EU Taxonomy can also serve as a tool for financial and non-financial undertakings to plan and communicate on their business strategies, transition planning, as well as their investing and lending activities for the transition to a low-carbon, sustainable economy.

How does it interact with the SFDR

Financial products promoting environmental characteristics or having an environmental objective are required to regularly disclose their alignment with the EU Taxonomy.

The recent Commission proposals pursuant to the Omnibus simplify the reporting templates, leading to a reduction of data points by 64-89% depending on the type of

company, introduces a materiality threshold to make disclosure of alignment for companies with less 10% eligible activities not mandatory, introduces the option of reporting partial alignment to foster transition finance, reduces the scope for mandatory reporting on operational expenditure and simplifies certain criteria[245].

Special considerations for the review: same as for the CSRD

Benchmark Regulation

What ESG disclosures does the Benchmark Regulation provide

The Benchmark Regulation (BMR) introduced disclosure requirements for all EU benchmarks with ESG factors, mandating administrators to disclose whether they integrate ESG in their benchmark design, and if so how. BMR also requires benchmark administrators of EU Climate Benchmarks, i.e. Paris-Aligned Benchmark (PAB) and Climate Transition Benchmark (CTB) to regularly report on the performance of their benchmarks against a set of sustainability-related Key Performance Indicators (KPIs). Their methodologies rely on minimum technical requirements focused on decarbonisation trajectory and activity exclusions. Exclusions encompass companies that significantly harm one or more environmental objectives set out in the Taxonomy Regulation. PABs and CTBs are designed to reorient investment towards ESG opportunities rather than focusing on simple risk reduction, in line with the objectives of a transition to a climate-resilient economy.

How does it interact with the SFDR

ESG disclosures from benchmark administrators are indispensable for FMPs relying on benchmarks for their ESG features of their portfolio. In addition, SFDR Art.9(3) recognises EU climate benchmarks as a robust investment strategy for funds having as their objective a reduction in carbon emissions. They are widely used as reliable labels for investment products pursuing a sustainable investment objective.

Special considerations for the review: the future SFDR criteria must ensure alignment with the criteria of the EU Climate Benchmarks to ensure these can be recognised as a robust way to comply with the categories. Products following such benchmarks should automatically be recognised under the relevant category. In addition, the future SFDR disclosures should take the benchmark disclosures into account to avoid situations in which FMPs cannot get necessary data on the indices they use (to the extent possible.

European Green Bonds standard

EUGBS is a voluntary standard to help scale up and raise the environmental ambitions of the green bond market. It sets a gold standard for how companies and public authorities can use green bonds to raise funds on capital markets to finance ambitious large-scale green investments, while meeting high sustainability requirements and protecting investors. The use of proceeds must be 100% aligned with the EU Taxonomy Regulation, with the exception of the so-called flexibility pocket up to 15%, ensuring that financed projects contribute substantially to at least one of the six environmental objectives, do no significant harm to others, and meet minimum social safeguards. Both EU-based and

[245] Commission to cut EU taxonomy red tape for companies - European Commission

international private or public issuers can adopt the standard, making it a potential global benchmark.

How can this tool be used under the SFDR

It can help investors to easily assess, compare and verify that their investments are sustainable and ensure that funds are allocated to taxonomy-aligned economic activities, thereby reducing greenwashing risks.

2. **SFDR information feeds into the sustainability preferences and target market under MiFID and IDD delegated acts**

These rules introduced the notion retail investors' sustainability preferences as part of the suitability test in investment and insurance advice. Investors are given the opportunity to set minimum sustainability requirements for their investments which can be expressed in relation to SFDR disclosures (proportion of taxonomy-aligned investment, proportion of sustainable investment, consideration of principal adverse impact). Distributors therefore rely on products' information made available under the SFDR to match retail investors' preferences.

Consideration for the review: The future SFDR categories should be designed in a way that is easily understandable for retail investors to ease the implementation of the suitability test. In addition, the scope of financial products that can be distributed under MiFID and IDD is broader than the SFDR scope (e.g. shares, bonds, derivatives, structured notes…). The review should explore whether some of these products (especially structured notes) should be scoped in the SFDR to avoid greenwashing and ease as much as possible the implementation of the rules by distributors.

3. **Further considerations regarding other specific parts of the EU acquis**

Corporate Sustainability Due Diligence Directive (CSDDD)

The CSDDD requires very large companies and ultimate parent companies of groups domiciled or active in the EU to conduct due diligence to identify and address adverse human rights and environmental impacts in their own operations, their subsidiaries and their value chains. It also requires them to adopt a transition plan for climate change mitigation.

How does it interact with the SFDR

Compliance with the CSDDD entails that companies under the scope will be either sustainable or on a credible path to sustainability with respect to human rights impacts and those environmental impacts that are regulated by the international conventions listed in the Annex of the Directive, and will have adopted relevant good governance and management practices. These due diligence efforts and compliance with the CSDDD can influence investment decisions under the SFDR. In turn, the SFDR has the potential to help companies under the CSDDD finance their sustainability transition.

Shareholder rights Directive, Green Claims Directive, EU Ecolabel, Unfair Commercial Practices Directive

4. The Shareholder Rights Directive (SRD), as amended in 2017, sets out "comply or explain" rules for institutional investors and asset managers with respect to their engagement and investment policies. Its Chapter Ib entered into application in June 2019 and requires institutional investors and asset managers to be more transparent about their investment strategies, their engagement policies and the implementation thereof. These "entity-level" rules help investors and ultimate beneficiaries such as future pensioners, life insurance policy holders and investment fund unit holders to optimise their investment decisions, also taking into account their preferences, including with respect to the long-term non-financial performance of the investee companies. As regards the (proposed) Green Claims Directive, SFDR disclosures are distinct as the directive does not apply to mandatory or voluntary sustainability information required under EU financial services rules including in the areas governed by the SFDR. The SFDR is also distinct from the mooted project to create an EU ecolabel for financial products, which could have led to a system of granting an EU-level sustainability label to certain funds based on defined conditions, but which is currently on hold[246]. Finally, the Unfair Commercial Practices Directive[247] and its subsequent Commission guidance on unfair business-to-consumer commercial practices[248] provides examples of what constitute misleading environmental claims or green claims, which apply horizontally to all commercial products and are meant to complement existing rules that take into account the specific features of financial products. Claims under the revised SFDR could fall within the definition of 'environmental claims' under Article 2(1)(o) of the Directive, the requirements of which would be met by application of the requirements under the SFDR (consistent with Article 3(4) and (9) of that Directive). **ESMA guidelines on fund names**

In May 2024, ESMA issued its final guidelines[249] for funds marketed in the EU that use ESG- or sustainability-related terms in their names. The guidelines, which aim at protecting investors against greenwashing risk, set minimum requirements. Fund managers had until May 21, 2025, to either align with the requirements or change fund names to ensure compliance. Consistent with the personal scope of the Sustainable Finance Disclosure Regulation, the guidelines are directed at fund managers[250] marketing funds in the EU.

Fund category	Requirements
No ESG word in name	No additional requirement
Social/governance or	- Minimum of 80% of investments used to meet environmental or social

[246] Project plan | Product Bureau
[247] Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market
[248] Guidance on the Unfair Commercial Practices Directive
[249] ESMA34-472-440 Final Report on the Guidelines on funds names
[250] The guidelines apply to fund managers who promote UCITS and alternative investment funds that use ESG- or sustainability-related terms in their names.

transition related term or "transition" in name	characteristics/sustainable investment objectives. - CTB exclusions[251]: exclusions of companies involved in (1) any activities related to controversial weapons; (2) the cultivation and production of tobacco; (3) in violations of the UN Global Compact (UN GC) principles or the OECD Guidelines for Multinational Enterprises. - If 'transition': investments contained in the 80% thresholds must be on a clear and measurable path to social or environmental transition
Environment-related or impact related terms in name	- Minimum of 80% of investments used to meet environmental or social characteristics/sustainable investment objectives. - PAB exclusions: CTB exclusions + exclusions of companies that derive : (4) 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (5) 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; (6) 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; (7) 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh. - If 'impact': investments contained in the 80% thresholds must be made with the objective to generate a positive and measurable social or environmental impact alongside a financial return.
Sustainable related terms in name	- Minimum of 80% of investments used to meet environmental or social characteristics/sustainable investment objectives. - PAB exclusions: CTB exclusions + exclusions of companies that derive : (4) 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (5) 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; (6) 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; (7) 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh - Invest meaningfully in sustainable investment (minimum of 50%)

5. How the Omnibus interacts with the SFDR review

The SFDR was not included as part of the announcement by the Commission President in November 2024 setting the stage for the February 2025 Omnibus[252]. This focused rather on simplifications to sustainability information under CSRD, the EU Taxonomy and the Corporate Sustainability Due Diligence Directive. The review of the SFDR was already well underway by this time, with the consultations carried out already having clearly signalled the preferred directions how to simplify the framework. In other words, the priority objective of simplification underpinning the Omnibus was already well-

[251] As defined in Article 12(1)(a)-(c) of Commission Delegated Regulation (EU) 2010/1818

[252] Remarks after the Informal meeting of Heads of State and Government regarding the Budapest Declaration on the New European Competitiveness Deal, https://audiovisual.ec.europa.eu/en/video/I-263708

established for the review of the SFDR at that time, and signalled accordingly under a "simplification" policy objective in the Commission 2025 Work Programme[253].

It is also appropriate to carry out the review of the SFDR in a successive step and to reflect, in its revised design, the new scope and range of sustainability information from corporates to be delivered under the Omnibus. This helps avoid a situation like in 2021 where FMPs' disclosure obligations were defined before those of EU corporates/investees were clear[254]. At the same time, it is not advisable to delay adopting the reviewed SFDR until all changes under the Omnibus are complete, including the finalisation of simplification changes to the European Sustainability Reporting Standards (ESRS). This is to avoid prolonging FMPs having disclosure obligations under SFDR which are no longer catered for (with specific datapoints[255]) under a revised ESRS, which could also complicate the effort to simplify ESRS the longer this persists.

Reviewing the SFDR is also necessary and coherent subsequent to the Omnibus, given its focus on paring back excessive requirements notably in the CSRD and the EU Taxonomy. In this regard however, while publicly available corporate sustainability information from larger EU corporates/investees under these frameworks will continue to be important under SFDR, the investable universe for financial products always extended far beyond listed and larger EU companies under the CSRD scope. Besides the strong support from investors for information on the sustainability features of financial products, reviewing the SFDR in a commensurate way is nonetheless necessary to sustain the specific use-case for sustainability information required under the CSRD and Taxonomy to inform the composition and disclosures for financial products. Otherwise, the continued purpose of the CSRD and Taxonomy would be partially undermined.

[253] Commission work programme 2025 - European Commission
[254] See Section 4 'Conclusions and lessons learned', Annex 11
[255] The current ESRS includes over 50 datapoints to support the corresponding information provisions of financial market participants related to principal adverse impacts set out in the SFDR Level 2 (Commission Delegated Regulation (EU) 2022/1288)

ANNEX 7: ADDITIONAL BACKGROUND ON SPECIFIC SECTORS OR INVESTMENTS

Special considerations for insurance and pension products

Manufacturers of pension schemes and funds and insurance-based products have faced challenges in the first years of the SFDR implementation. They have flagged that they manage complex portfolios, with a broader range of listed and unlisted assets, than most retail investment products, and that some of their main assets cannot be assessed against the ESG framework, in particular for sovereign bonds. These points are not specific to pension and insurance products, however, as many UCITS and AIFs face the same challenges. However, this coupled with regulatory constraints and data availability issues, has led to lower portfolio ratios for pensions and insurance providers that can be aligned with the concepts for sustainable investments given in the SFDR (i.e. Taxonomy-alignment or definition of sustainable investment).

The pension funds industry has shown a nuanced support for a categorisation system and raised two issues linked to the specificities of the sector:

(1) **Concerns that the criteria would not fit their portfolio:** FMPs have flagged that the current SFDR disclosures (i.e. PAIs, good governance and taxonomy KPIs) are applicable mainly to listed equity but not the other assets in which pension funds/IORPs invest. These data points are either very difficult (PAIs) or impossible to generate (Taxonomy) for assets such as sovereign bonds.

According to feedback received, the two sets of criteria outlined in Section 5 could make sense, but they would **need to reflect the nature of the assets held by such products.** The pension funds industry for instance points out that various long-term products (characterised by diversification, low risk) might never reach the "sustainable" category. FMPs have also flagged that portfolio level PAB exclusions would not be applicable to 100% of pension funds/IORPs due to their investments in certain assets.

(2) **Concerns that the potential role for the categories in the distribution and marketing rules would not fit their sectoral rules.** Some pension funds participants have a fundamentally different customer journey than retail investors. Members of IORPs and certain pension products are automatically enrolled, while some pension products are commercialised and compete with other financial products. Moreover, for auto-enrolment products, FMPs argued that products would not have any incentive to mislead consumers through greenwashing, questioning the need to reinforce their marketing rules.

The insurance industry has similar concerns. The majority of FMPs consider that criteria should be **suitable for broadly diversified portfolios,** e.g. in respect of the prudent person principle in Solvency II, and the diversified range of products they cover. Stakeholders have also asked that categories should guarantee that **all investment instruments (e.g. government bonds) of portfolios are covered** by the metrics of the system.

FMPs have also argued that criteria will also need to reflect the characteristics of insurance products. Stakeholders have identified some technical elements that should be addressed (e.g. the definition of 'all investments' encompasses many assets that have nothing to do with investments, like deposit to cedants or cash equivalents).

Treatment of sovereign[256] bonds Given the specific nature of general purpose sovereign bonds which can fund a variety of public sector expenditures such as hospitals, schools etc. or investments such as transport networks and other infrastructures, and which can thus be difficult to assess against sustainability metrics, specific solutions are required on how to integrate them in any calculations for the positive contribution criterion linked to product categories[257]. The solution should apply beyond insurance and pension products.

An option is to continue including them and signal relevant metrics against which they can be assessed (provided e.g. by the World Bank[258], some NGOs or other entities/trade bodies[259]), but these may not cover the same ground as would be possible for corporate bonds, across all relevant ESG metrics. Another would be to include them only for the parts of products which are screened using similar metrics, e.g. associated with social and governance metrics such as human rights and corruption. This would mean FMPs having to provide more detailed explanations distinguishing between parts of products where comparable data between sovereign and corporate issuers is possible and where it is not.

Alternatively, they could be included based solely on a screening of available metrics (and spared from having to be assessed against unavailable ones). This could mean quasi-automatic qualification for some issuers which fare well in relation to human rights and other governance indicators or climate change and other environmental commitments, and outright exclusion of those that don't (e.g. favouring EU sovereign issuers as opposed to those blacklisted under various instruments e.g. sanctions, money laundering or tax avoidance lists etc).

Yet another option could be for FMPs to have the option of excluding them and providing explanations in their disclosures of the part of products that this relates to. However, this could have drawbacks in terms of overall comparability. Finally, sovereign bonds could be excluded altogether, subject to a review clause on their inclusion, subsequent to the development of guidance or further methodologies for how to assess them more comprehensively against sustainability metrics.

Stakeholder feedback on the issue is also mixed and inconclusive. There is seemingly little support for either outright inclusion or exclusion. The intermediate options of partial/optional inclusion may thus be preferred, subject to additional disclosures. Given the primarily political nature of the decision, however, these options are not subject to further consideration of their relative impacts in this impact assessment.

Multi-option products ("MOPs") which allow consumers to choose between different underlying funds for investing, should be able to demonstrate that they fulfil the criteria of the categories and be classified accordingly. This is a challenge due to, inter alia,

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[256] Reference here also covers sub-sovereign and supranational debt

[257] At present, sovereign bonds account for c.10-20% of Article 8 and 9 funds (see: SFDR Article 8 and Article 9 Funds: Q2 2025 in Review | Morningstar)

[258] Home | Worldwide Governance Indicators

[259] E.g. Freedom House | Expanding and Defending Freedom Worldwide; 2024-state-of-transition-in-sovereigns-2024-tracking-national-climate-action-for-investors-report.pdf; Sovereign Bonds

investment options that are not financial products sold as part of IBIPs (and pension schemes) in many Member States, or the variety of underlying investments, which often can be determined by the client at the point of sale.

Special considerations for impact investing

Impact investing refers to the small but growing market practice of managing and channelling investments that target measurable change in specific environmental or social areas. The practice involves investment funds set up with a pre-defined intention with regard to addressing an environmental or social need, investing in specialised companies or projects delivering targeted solutions in these areas, and measuring and managing the desired impact while earning a financial return for investors. The funds typically define an upfront strategy ('theory of change') to underpin investments and seek to ensure, and measure, impacts in terms of outcomes which would not have happened without the investments. The funds can invest, for instance, in start-ups pursuing environmental solutions or products and other initiatives and ventures targeting specified social or health outcomes.

According to Impact Europe, a trade association representing the industry, in 2024 the European impact investing market managed EUR190 billion in assets under management, up from around EUR 80 billion in 2022. Data from ESMA and Morningstar shows a fourfold increase in the use of the term "impact" in funds' names between 2019 and mid-2024, with roughly 450 European UCITS and AIFs using the term (compared to over 7500 using general ESG terms), representing 0.57% of total UCITS and 0.51% total AIFs. Growth seems to have levelled off since 2023. The broad concept is recognised as one of the four distinct labels under the UK FCA's Sustainability Disclosure Requirements, and the use of the term is also subject to ESMA's guidelines on fund names using ESG terms. ESMA is also developing a supervisory tool to promote convergence in oversight by NCAs of the practice.

Some stakeholders, notably from the impact industry itself, have favoured creating a dedicated category for impact investing in the SFDR, saying this would give added clarity and visibility to the practice, and help mobilise funds in pursuit of various (possibly underserved) EU objectives. Some stakeholders also suggest that a dedicated category would be needed to serve the 50% of European investors who are found to want to make a real-world impact with their savings, and channel funds towards start ups and scale ups working on innovative green and social solutions[260]..However, given the relatively small scale and recent character of the activity in the overall context of ESG investing, the nascent and developing supervisory experiences, as well as balance of stakeholder views, the case for a distinct category in a revised SFDR does not appear crucial. Rather, it is assessed that the activity can be accommodated in the broader more encompassing categorisation, e.g. within the principles and criteria for sustainable or transition products. Specific disclosures can apply to funds claiming impact in their names or in their disclosures, based on a common definition of the practice (e.g. theory of change, monitoring of the impact etc).

Special considerations regarding the defence sector

Amid some concerns raised in the past that 'ESG factors' are posing impediments to investments in the defence sector, the Commission has clarified on several occasions that

[260] WWF: Recommendations on the SFDR Review Sustainable Finance | WWF

there are no such restrictions in the SFDR, or in the EU sustainable finance framework more broadly. For example, the March 2024 Communication for a European Defence Industrial Strategy (EDIS)[261] sets out that "under the EU sustainable finance framework, no EU rule, or any EU planned rule, impedes private investment in the defence industry" [262]. This messaging was reaffirmed by the White Paper on European Defence Readiness 2030 of March 2025[263], stating that the SFDR review will provide additional clarifications "on the relationship of defence with the investment goals of the sustainability framework".

Under the SFDR companies active in the defence sector are subject to the same expectations as companies in any other sectors. However, in practice some product providers or supervisors may de-facto consider such investments as incompatible with products making ESG claims, reflecting in part potential long-standing concerns of some investors to invest in the defence sector.

Against this, the review of the SFDR should reflect relevant unfolding developments regarding the need to continue supporting private investments towards defence[264]. The SFDR should notably build on the guidance from the Commission regarding the application of the EU sustainable finance framework regarding the defence sector. This guidance, announced in the EDIS Communication, re-confirms that nothing in the framework discriminates against defence[265] and that investing in companies in the defence sector can be compatible with a sustainable investment strategy provided that the relevant due diligence checks are performed like for other sectors. The revised SFDR should also duly reflect the actions, announced in the March 2025 White Paper, to further bolster access to finance for the defence sector in the defence readiness omnibus proposals of June 2025[266].

The policy choices for the SFDR review in this area flow from these steps taken by the Commission and are not subject to further consideration in this impact assessment.

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[261] https://defence-industry-space.ec.europa.eu/document/download/643c4a00-0da9-4768-83cd-a5628f5c3063_en?filename=EDIS%20Joint%20Communication.pdf

[262] With the exception of the specific case of controversial weapons banned by international conventions (biological and chemical weapons, anti-personnel mines, cluster munitions), which are subject to more stringent disclosures in SFDR or exclusions under PAB/CTB.

[263] https://defence-industry-space.ec.europa.eu/document/download/30b50d2c-49aa-4250-9ca6-27a0347cf009_en?filename=White%20Paper.pdf

[264] Recent data shows continuing growth in investments into aerospace and defence notably by Article 6 and 8 funds (see: SFDR Article 8 and Article 9 Funds: Q2 2025 in Review | Morningstar)

[265] For further context, UK authorities have also provided similar clarifications. See FCA position on sustainability regulations and the UK defence, 11/03/2025

[266] Defence Readiness Omnibus - European Commission

ANNEX 8: ADDITIONAL INFORMATION AND ILLUSTRATIVE EXAMPLES OF POTENTIAL CRITERIA AND DISCLOSURES (OPTION 3.1 AND 3.2) AND APPROACH TO ESTIMATION

This annex recaps and further explains the suggested criteria presented in section 5.4 under option 3.1 and 3.2. It also provides for mock templates for the streamlined disclosures described under option 2.2.

DISCLAIMER: The content of this annex does not pre-empt the future elaboration of level 2 rules. It aims at providing more information on the type of criteria which could be elaborated on the basis of high-level principles to be set in the regulation. It also aims at helping readers understand how the categories can work in practice and what the suggested disclosures could look like.

ANNEX 8 - TABLE OF CONTENTS

1. **Section 1: Proposed criteria for the categories proposed in option 3.1 and 3.2.**
    - 1.1. The two pillars approach
    - 1.2. Concrete criteria per category
    - 1.3. Illustrative example of how the criteria could be implemented
    - 1.4. Evidence of the usability and feasibility of the criteria
2. **Section 2: Proposed product disclosures under option 2.2.**
3. **Section 3: Proposed approach to estimation to bridge the ESG data gaps**

SECTION 1: UNDERLYING CRITERIA FOR THE CATEGORIES PROPOSED UNDER OPTION 3.1 AND 3.2

This section describes the set of criteria suggested for the categories and provides for illustrative examples of what the concrete and detailed criteria (to be further developed at level 2) could look like. It also provides illustrative examples of how these criteria could be applied in practice and provides evidence of the feasibility of the suggested criteria as well as evidence of their likely impact.

SUMMARY OF THE MAIN FINDINGS:

The current SFDR definition of 'sustainable investment' builds on three principles: investment having an environmental or social objective, causing no significant harm (as per the 'do no significant harm' [DNSH] principle through the consideration of the principal adverse impact indicators) and investing in companies with good governance practices.

As set out in Sections 5.4 and 6.3 in the main report, the revised criteria **build on these core principles** and **underpin them with a set of clear minimum criteria** to prevent greenwashing and the excessive fragmentation of FMPs' approaches. This would bring clarity to FMPs in the application of the criteria, help systematize the categorisation process and enhance the comparability of products. The cost of implementation of these criteria will be limited by ensuring continuity with robust market practices and existing rules, namely the ESMA guidelines on funds' names.

How will the proposed criteria enhance comparability and help fight greenwashing?

The evaluation (annex 11) has identified that the lack of clarity linked to the concept of 'sustainable investment' has led to widely different interpretations and implementation approaches amongst FMPs. As shown in box 10 of annex 1, the exposure to sustainable investments of products tracking a similar benchmark can range from 1% to 80%.

The evaluation also finds that the 'DNSH test', which is done through the high-level principle of 'consideration of principal adverse impacts', has not led to harmonised implementation practices and has not prevented harmful investments. This is mainly because the current SFDR leaves considerable discretion to FMPs in choosing how they consider these impacts.

To remedy this, two main measures are suggested to enhance the comparability and help fight greenwashing:

- **Positive contribution: Setting a minimum portion of investment to contribute to the sustainability objective** (70/80% of the product)
- **Exclusions: Setting clear exclusions of harmful industries and activities in which products cannot invest in** – *these exclusions would be aligned with the ones of the EU Climate Benchmarks, as introduced by the ESMA guidelines on funds' names*

What is the evidence that reliable and comparable sustainable information is available for the proposed criteria? How to ensure that the costs of implementation and market disruptions will be limited (to the extent possible)?

Section 1.4 presents further evidence on the feasibility of the proposed criteria based on market analysis of current financial products.

First, the bulk of the suggested criteria replicate what has already been introduced under the ESMA guidelines for ESG funds names. The guidelines, which started applying in May 2025, require investment funds with ESG-related terms in their names to (1) ensure that at least 80% of the investments align with their ESG objectives/characteristics; (2) apply the exclusions of the EU Climate Benchmarks. **The number of investment funds currently applying these requirements has been estimated at 4.570**[267]. The same study also estimates that the universe of funds using ESG-related terms only decreased by 8% since the entry into application of these requirements, showing that most funds in scope managed to implement the ESMA criteria. **Since the criteria for the categories largely build on these guidelines, most of the one-off implementation costs would have already been borne by funds in scope of the guidelines.** In addition, market analysis described in section 1.4 shows that **the implementation of sectoral exclusions are the key elements of comparability identified in funds with ESG characteristics or objectives**, demonstrating the well-established market practices around exclusions[268].

Second, the criteria refer to sustainability topics for which the information is either available from investee companies or possible to estimate by FMPs/external providers when the information is missing (*more information on the approach to estimation below in section 3).* The proposed exclusions build on findings from market analysis on which indicators are most frequently disclosed by companies[269][270] and rely on common and clear metrics which are possible to estimate in a harmonised way.

Practical limitations to reach perfect comparability First, there are certain practical limitations to the levels of comparability which can be reached/required from products. Findings from the evaluation[271] show that there is no 'one size fits all' on how to granularly define what a positive contribution to a sustainability objective should be.

[267] 'ESMA Guidelines on ESG Funds' Names, early insights into rebranding activity and portfolio impact' by Morningstar/Sustainalytics, 20 May 2025.

[268] Frank Bold, SFDR review: analysis of current practices and future directions for investors, December 2024 and Morningstar, SFDR Article 8 and Article 9, 2022

[269] For example, the PSF report highlights which sustainability indicators lack publicly available or estimated data, such as biodiversity and water. The ESAs annual report mentioned above also gives a useful state of play of the reporting based on FY 2023. In addition, box 12 of annex 11 shows that ESG data is widely available on topics such as GHG emissions, exposure to fossil fuel sectors and exposure to controversial weapons.

[270] For example, for the transition category, in 2024, 37% of polled investors in a Robeco study (300 FMPs) said they already invest in companies with high emissions if they have credible transition plans, and an extra 26% are planning to do so in following 1-2 years. Similar figures are reflected in a 2024 Morgan Stanley survey showing that globally, of the asset owners and asset managers surveyed that have a net-zero target, 32% and 25% respectively are expecting to meet their target by mostly shifting capital toward high emitters that are decarbonising and a further 28% of both groups is expecting to do so by a combination of this and tilting toward low emitters. Lastly, a 2025 survey commissioned by E3G in the UK found that 86% of investors surveyed consider transition plans as a valuable tool to inform their investment decisions.

[271] For example, the different approaches to contribution described in Frank Bold, SFDR review : analysis of current practices and future directions for investors, December 2024

This is mainly due to the wide variety of assets, strategies, sustainability objectives that exist in the current market. If a very granular and common (mandatory) approach to contribution was to be applied to all products regardless of their sustainability objective (e.g. minimum alignment with the EU Taxonomy), the investment universe would be too restricted, and the categories would not be usable (i.e. only a handful of products could be categorised). In other words, it would be counterproductive to micro-engineer what characteristics ESG products could have to this extent, both for product innovation and for ensuring a future-proof regulatory framework, for encouraging the offer of ESG products on the market, and ultimately for both the specific and general objectives of this initiative[272]. In fact, the potential of categories to simplify the framework for FMPs and to enhance the comparability of products and fight greenwashing would be significantly lowered if only a handful of EU products are categorised.

Therefore, the suggested criteria focus on ensuring harmonised levels of contribution rather than granularly defining the nature of the contribution for them. This would also ensure continuity with what investment funds had to implement under the ESMA guidelines on funds' names (in application since May 2025). FMPs would be required to measure and disclose their assessment of performance against the objective that they contribute to. This should be based on credible and where possible science-based indicators[273].

In addition to the measures described above, the Commission could be empowered to define a minimum ESG performance for certain sustainability objectives. In order to set this comparable minimum quantitative criterion on performance, two elements would be needed: (1) widely available data from underlying investments or otherwise estimable datapoints; (2) a politically agreed science-based target (e.g. minimum performance on GHG emissions for climate-related objectives) so that the law can set that minimum threshold unequivocally.

Practical limitations to ensuring safeguards on certain sustainability topics: Second, the data availability issues described in the problem definition impact the amount of sustainability topics for which robust safeguards against greenwashing can be applied (for now). Even though the current DNSH covers 12 sustainability topics[274], data availability issues have impacted the implementation of the current DNSH test and prevented the implementation of safeguards on issues for which no data was available. This has created the false perception that ESG products consider all possible ESG negative impacts despite the lack of requirements linked to the consideration of such impacts and the lack of available data to do so. Many stakeholders reported that they

[272] E.g. to illustrate the point, limiting ESG products to those for which granular publicly available data is available under the (post-omnibus) CSRD, would represent a considerable change and challenge for FMPs in terms of administrative requirements and continuity (vs. specific objective 1), give investors a very narrow ESG product range for any meaningful comparison to serve their demonstrated interest in ESG investing (vs. specific objective 2; Annexes 2 and 10), and would rather diminish the scope of the EU single market for sustainable finance rather than boost its integrity (vs. general objective 1) and potential to efficiently allocate capital for Europe's competitiveness and sustainable prosperity (vs. general objective 2).

[273] The SFDR level 2 could also provide a non-exhaustive list of ESG indicators on certain sustainability topics for FMPs' use (see further under section 1.2 below)

[274] These topics are set by Commission Delegated Regulation (EU) 2022/1288, through the **principal adverse impacts (PAIs)** listed in table 1 of Annex I: GHG emissions, carbon footprint, GHG intensity, exposure to the fossil fuel sector, non-renewable energy consumption and production, energy consumption intensity, biodiversity, water, waste, human right due diligence processes, gender pay gap, gender diversity and controversial weapons.

typically do not select PAIs that have less than 40% coverage (i.e. where they have underlying data for less than 40% of the portfolio). The PAIs for which the coverage is the lowest (as shown in box 12 of Annex 11) include biodiversity, water and waste. Therefore, the suggested safeguards, in the form of exclusions, only focus on sustainability topics for which reliable and comparable information can be derived (based on findings in Annex 11). While this approach would indeed lead to a reduction of mandatory sustainability aspects to be analysed, it is a necessary trade-off to improve the efficiency and effectiveness of the criteria.

Table 1: Key impacts of the proposed criteria (compared to current situation)

Current situation	
Identified legal limitations	**Practical impact**
No minimum expectation regarding the positive contribution of the product.	The levels of sustainable investment can vary significantly. *Example shown in Annex 11 (box 10)*: Products with very similar sustainability objectives report a portion of sustainable investment varying from 1% to 80%. Their levels of contribution are therefore not harmonised.
No harmonised approach on how to ensure no significant harm. In other words, FMPs are free to choose the way they consider their adverse impacts on the indicators provided in the SFDR delegated acts.	There is no guarantee that these products will not include harmful investment, despite having applied the 'do no significant harm' principle and appearing to be compliant with EU rules.

New situation under the proposed criteria	
Proposed criteria	**Practical impact**
Mandatory minimum proportion of the product to contribute to the sustainability objective	The levels of sustainable investment would be harmonised across all categorised products. The specific thresholds are indicated below in section 1.2.
Mandatory common exclusions of harmful activities	There would be a list of industries or activities that products cannot invest in. This will guarantee no harmful investments (on topics for which binary exclusions are feasible and implementable).

1.1. CRITERIA BUILT ON TWO PILLARS: POSITIVE CONTRIBUTION/AMBITION AND EXCLUSIONS

Pillar 1: positive contribution ensuring minimum levels of ESG ambition

This criterion relates to the current SFDR concepts of 'contribution' and 'environmental and social characteristics' - present in Articles 9 and 8 respectively - and aims at addressing the lack of legal clarity and greenwashing risks related to these concepts.

FMPs would be free to choose their own sustainability objective(s) and how they plan to contribute to it/them, subject to proper transparency. However, a minimum threshold of the product's portfolio to be covered by the ESG strategy would be required:

✓FMPs must clearly **disclose their binding sustainability-related objective(s) and the strategy to achieve it/them**

✓The binding objective(s) should consist of having a **minimum level of investment above a certain threshold** (i.e. portion of portfolio covered by the objective strategy)

✓The **assessment of performance** against this objective should be based on credible and where possible science-based indicators. Such measurement could leverage on existing PAI indicators (subject to improvements), and other ESG performance indicators which could be developed at level 2, and should be clearly disclosed in contractual documentation. .

Pillar 2: exclusions ensuring minimum safeguards on certain ESG issues ✕

This criterion relates to the current DNSH and good governance principles of the SFDR. It aims at moving away from the high-level concept of "consideration of principal adverse impact" and setting clear binary exclusion criteria.

The negative criterion would take the form of a clear list of industries or activities that products cannot invest in. Such list would build on what is already applied under the ESMA guidelines on funds' names and would reflect a wide consensus of harmful industries and industries with high carbon footprints.[275]

Such exclusions would make rules more consistent across the EU, harmonise the NCAs' supervisory expectations about what categorised products cannot invest in, and therefore enhance the comparability between such products, in line with investors' broadly signalled preferences regarding which sectors should be excluded (Annex 10).

[275] The ESMA guidelines require funds to exclude certain companies referred to in the EU climate benchmark exclusions.

Also, by focussing on fewer sustainability topics than the current DNSH, this approach would reduce the amount of data that FMPs need to collect[276]. The new minimum safeguards would focus on elements where data is available, making it more realistic to apply the principle in practice. Inevitably, the exclusions can and will not cover all the ESG aspects previously covered by the PAIs (e.g. biodiversity and water). FMPs could continue to identify and consider material negative outcomes on these topics on a best-effort basis.

1.2. SUGGESTED DETAILED CRITERIA FOR EACH CATEGORY

The below largely builds on the criteria already introduced by the ESMA Guidelines on funds' names and reflects the current state of the market (see section 1.4 below). The suggested criteria also take account of the findings on data availability in the evaluation annex (more specifically the findings on box 12) and rely, as much as possible, on ESG concepts for which reliable and comparable sustainability information is available.

Sustainable category

Positive contribution:

✓ FMPs must clearly **identify and disclose the sustainability objective(s)** (which could be climate, environmental or social related).

✓ FMPs must implement a binding investment strategy linked to this objective which needs to **cover 70/80% of the product's portfolio**[277]. FMP remain free to set their own strategy. The strategy would need to be substantiated and monitored by ESG **key performance indicators** (KPIs) defined by FMPs. The SFDR could provide a non-exhaustive list of ESG indicators (to be defined at level 2) on certain sustainability topics (e.g. GHG emissions, renewable energy, water, waste) which FMPs can use depending on their sustainability objective(s)[278] to monitor and disclose their ESG performance linked to their strategy. FMPs will remain free to use other indicators if these do not fit their sustainable objective(s) (e.g. qualitative objective linked to social issues) or their strategy (e.g. impact strategies needing tailored KPIs). A minimum alignment with the EU Taxonomy could for example be one of the ways FMPs can demonstrate their contribution to a climate or environmental objective (safe harbour).

The assessment of the performance against the chosen sustainability indicator(s) must be clearly disclosed in contractual documentation.

[276] These topics are set by Commission Delegated Regulation (EU) 2022/1288, through the **principal adverse impacts (PAIs)** listed in table 1 of Annex I: GHG emissions, carbon footprint, GHG intensity, exposure to the fossil fuel sector, non-renewable energy consumption and production, energy consumption intensity, biodiversity, water, waste, human right due diligence processes, gender pay gap, gender diversity and controversial weapons.

[277] Further analysis to be done ahead of the adoption of the level 2 measures. ESMA guidelines refer to 80%, the FCA labelling rules refer to 70%.

[278] This list would build on the current principal adverse indicators of the annex 1 of the SFDR Delegated Act and would take into account EU corporate reporting rules, market practices and available data.

Exclusions:

The product must apply exclusions based on those of the EU Paris-Aligned Benchmark (PAB)

Social safe-guards

☒ Activities related to controversial weapons

☒ Activities related to the cultivation and production of tobacco

☒ Companies in violation of the UN Global Compact (UN GC) principles or the OECD Guidelines for Multinational Enterprises (*also covering the existing good governance leg)*

Climate safe-guards

☒ Companies that derive 1% or more of their revenues from exploration, extraction, distribution or refining of hard coal and lignite

☒ Companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels

☒ Companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels

☒ Companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh

In addition, the exclusions would specify that investees cannot be engaged in activities involving fossil fuel expansion and should, where relevant, have a coal phase out plan.

FMPs could continue to identify and consider material negative outcomes on other sustainability factors on a best-effort basis.

Transition category

Positive contribution:

✓ FMPs must clearly **identify and disclose the transition objective(s)** (which could be climate, environmental or social related).

✓ FMP must implement a binding transition strategy linked to this objective which needs to **cover 70/80% of the product's portfolio**. FMPs remain free to set their own strategy. For example, 70/80% of the portfolio could be invested in transitioning assets or could be covered by a transition strategy at the level of the portfolio (e.g. GHG emission reduction of the portfolio per year). The strategy would need to be monitored by ESG **key performance indicators.** The SFDR will provide a non-exhaustive list of indicators which FMPs can use to demonstrate how the strategy pursues this objective. These would build on existing market practices and the existing sustainable finance framework. For

example, possible metrics to meet the transition objective could be: (a) a clear and measurable transition strategy at the level of the portfolio (e.g. a GHG emission reduction of x% per annum for products with climate transition objective); (b) investments in undertakings or economic activities with a credible transition plan, including science-based targets aligned with any sector-specific pathways and supported by other conditions (decarbonisation actions, financing etc.); (c) investments in Taxonomy-eligible activities with CapEx plan or partially aligned with the EU Taxonomy; (d) investment in portfolios tracking EU climate transition benchmarks (PAB/CTB); (e) investments in companies or economic activities without transition plan, provided that the FMP has put in place a credible, active and continued engagement strategy and that the investee companies demonstrate pre-defined credible measurable positive change in relation to the specified KPI.

✕ **Exclusions:**

The product must apply exclusions based on those of the EU Climate Transition Benchmarks (CTB):

Social safe-guards

☒ Activities related to controversial weapons

☒ Activities related to the cultivation and production of tobacco

☒ Companies in violation of the UN Global Compact (UN GC) principles or the OECD Guidelines for Multinational Enterprises (*also covering the existing good governance leg)*

In addition, the exclusions would specify that investees cannot be engaged in activities involving fossil fuel expansion and should, where relevant, have a coal phase out plan. FMPs could continue to identify and consider material negative outcomes on other sustainability factors on a best-effort basis.

'Other ESG' category

Positive contribution:

✓ FMP must implement a binding investment strategy (e.g. ESG process-based strategy) linked to the ESG claim made which needs to **cover 70/80% of the product's portfolio**. If needed, to support FMPs, examples of robust sustainable strategies could be provided via guidance. These examples could be the use of ESG ratings, a best-in-class strategy on a given ESG indicator, or outperforming the investment universe on a specific ESG indicator.

✕ **Exclusions:**

The product must apply exclusions based on those of the EU Climate Transition Benchmarks (CTB):

Social safe-guards

☒ Activities related to controversial weapons

☒ Activities related to the cultivation and production of tobacco

☒ Companies in violation of the UN Global Compact (UN GC) principles or the OECD Guidelines for Multinational Enterprises (*also covering the existing good governance principle)*

FMPs could continue to identify and consider material negative outcomes on other sustainability factors on a best-effort basis.

1.3. EXAMPLES OF HOW THESE CRITERIA COULD BE IMPLEMENTED

Examples of what products categorised under the sustainable category could look like based on the suggested criteria (for illustrative purposes):

Example of a financial product with a climate-related objective:

- Positive contribution on **climate** by investing in sustainable companies, projects or other assets supporting the development of solutions to tackle climate change issues. The sustainability strategy to ensure the attainment of the objective covers 70/80% of the products' assets.
    - Data needed for the assessment of the positive contribution can be found in the general description of the company (corporate purpose, objective of the company, sector of activity – which are information to be included in the legal statutes). This data is usually collected as part of FMPs' due diligence assessment.
    - Data needed for the articulation of the KPI chosen and defined by the FMP to substantiate and monitor the strategy (e.g. X% of revenues by portfolio companies to align with strategy and demonstrate progress toward achieving the objective of the product in terms of performance) can be found either: (1) in companies' disclosures under the CSRD (ESRS E1 – climate change) including disclosures for their Taxonomy-aligned activities (e.g. renewable energies, activities 'enabling' climate change mitigation etc)[279]; (2) in companies' disclosures under the ISSB (IFRS S2 – climate-related disclosures) or other international standards[280]; (3) can be derived from an external data provider (see section 3 part 1 below); or (4) estimated by the FMP using proprietary or open-source tools, appropriately explained (see section 3 part 2 below).

[279] CSRD public reporting in place since 2025; Taxonomy public reporting since 2022
[280] E.g. the Global Reporting Initiative - GRI - Home

- The products commit not to invest in companies engaged in activities involving fossil fuel expansion as well as any economic activities/companies in violations of the PAB exclusions (described above).

    - Data needed for the assessment of the exclusions can be found (1) in companies' disclosures under the CSRD (ESRS mirror the PAB exclusions under ESRS E1-1/E1-6/E1-9; ESRS S1-1/S1-14/S1-16/S1-17/S2-1/S3-1/S4-1. ESRS 2 – SBM 1; ESRS G1-4; (2) some aspects are covered by ISSB disclosures or other international standards; (3) can be derived from an external data provider; or (4) estimated by the FMP. Data for the exclusion of companies engaged in expansion of fossil fuel activities can be found in widely used public databases[281].

Examples of what a product categorised under the transition category could look like based on the suggested criteria:

Example of a financial product with a climate transition objective:

- Positive contribution on **climate transition** by investing in companies developing decarbonisation solutions and/or companies on a credible path to net zero demonstrated by science-based targets, transition plans or Taxonomy partial alignment and capex disclosures.

    - Data needed for the assessment of the positive contribution and articulation of the KPI chosen and defined by the FMP to substantiate and monitor the strategy (e.g. X% of investments or revenues by portfolio companies to align with strategy and demonstrate progress toward achieving the objective of the product in terms of performance) can be found e.g. in (1) the general description of the company (sector of activity) and in specific disclosures such as CSRD ESRS E1-1 (transition plan for climate change mitigation)[282]; (2) their disclosures of Taxonomy-aligned Capex plans (as per section 1.1.2 of Annex 1 of Commission Delegated Regulation (EU) 2021/2178);(3) those disclosed pursuant to science-based targets[283]; (4) disclosed pursuant to module B3 of the voluntary standard for SMEs (VSME) developed by EFRAG (Annex 1 of the Commission Recommendation on a voluntary sustainability reporting standard for small and medium-sized undertakings of 20 July 2025)[284]; (5)

[281] E.g. those published by a network of NGOs, namely GCEL 2024 | Global Coal Exit List; Global Oil and Gas Exit List

[282] EFRAG's 2025 State of Play study highlighted the 55% of ESRS preparers have already reported on transition plans. Furthermore, the Platform on Sustainable Finance's report on monitoring of capital flows demonstrates that it is possible to implement criteria for credible transition plans. They analysed 1063 companies operating within the European Economic Area, with 764 of them reporting under the NFRD and covering approximately 40% of NFRD universe. 12% of companies in scope fulfilled the minimum characteristics with elements of credible transition plans as defined by the PSF in its report on transition plans.

[283] As of August 2024, more than 6,000 companies have defined science-based pathways validated by the Science based target initiative (SBTi). The Recommendation on voluntary sustainability reporting for small and medium-sized companies (SMEs) adopted by the Commission in July 2025 also provides a basis for assessing transition (see C3 – GHG reduction targets and climate transition).

[284] 250730-recommendation-vsme-annex-1_en.pdf

derived from an external data provider; or (6) estimated by the FMP using proprietary or open-source tools, appropriately explained.

- Other possibility: positive contribution to **climate transition** by setting a decarbonisation trajectory of at least 7% per annum.
    - Investment into portfolios tracking EU climate benchmarks, informed by underlying data from constituent entities regarding their compliance with the trajectory.
- The products commit not to invest in economic activities/companies in violations of the CTB exclusions (described above).
    - Data from the same sources as for the example under the 'sustainable' category above.

Examples of what a product categorised under the 'other ESG' category could look like based on the suggested criteria:

- A financial product that provides global exposure based on a global benchmark but with an ESG tilt towards companies with stronger ESG credentials: lowering carbon-equivalent exposure compared to the benchmark.
    - Data needed for the assessment of the positive contribution and articulation of the KPI chosen and defined by the FMP to substantiate and monitor the strategy (e.g. X% of investments or revenues by portfolio companies to align with strategy and demonstrate progress toward achieving the objective of the product in terms of performance) e.g. (1) based on companies' ESG ratings or other scoring methods[285]; (2) for gradual higher weighting of better improving assets from e.g. CSRD[286] or international reporting frameworks; (3) data vendors; or (5) estimated by the FMP using proprietary or open-source tools, appropriately explained.
- The products commit not to invest in economic activities/companies in violations of the CTB exclusions (described above).
    - Data from the same sources as for the example under the 'sustainable' category above.

This category would also include products with a sustainability objective but not reaching the 70/80% percentage set under the other two categories.

[285] E.g. CDP: Turning Transparency to Action
[286] E.g. ESRS 2 SBM-1 Strategy, business model and value chain

1.4. EVIDENCE OF THE USABILITY AND FEASIBILITY OF THE PROPOSED CRITERIA

FEASIBILITY OF THE CONTRIBUTION CRITERIA

FMPs are free to set their own objective(s) and indicators to measure their contribution to those objectives. Based on their target market in terms of prospective investors, they can focus on sustainability issues on which companies disclose information or that they can derive or estimate as per above. In addition to the illustrative examples in section 1.3 above, for example, an FMP that choses to contribute to biodiversity would invest largely in companies that disclose information regarding their biodiversity performance or in companies that develop solutions to biodiversity issues (this information can be found in the general information and other disclosures of the company).

FEASIBILITY OF THE EXCLUSION CRITERIA

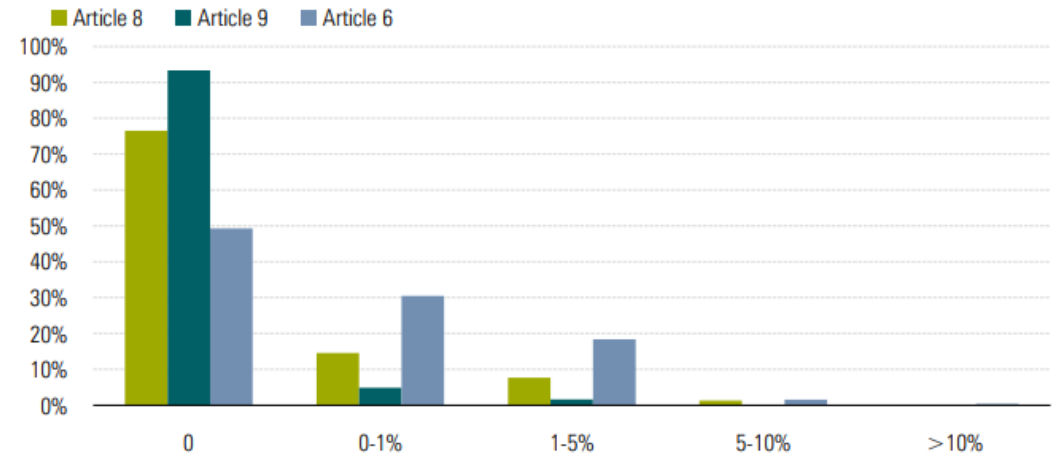
First, market analysis shows that the implementation of sectoral exclusions are the main elements of comparability today in funds with ESG characteristics or objectives.

According to the Morningstar study, a key common trend among these funds is their low exposure to some controversial activities such as **controversial weapons, tobacco**, companies with **severe controversies** and with **thermal coal** activities (see box 6). Similarly, the Frank Bold study[287] shows a high degree of harmonisation in core exclusions (and their related disclosures) linked to **controversial weapons, thermal coal, tobacco** and violations of **UNGP and OECD Guidelines for Multinational Enterprises. Studies show that these also tend to broadly align with investors' declared preferences (Annex 10).**

[287] Frank Bold, SFDR review : analysis of current practices and future directions for investors, December 2024.

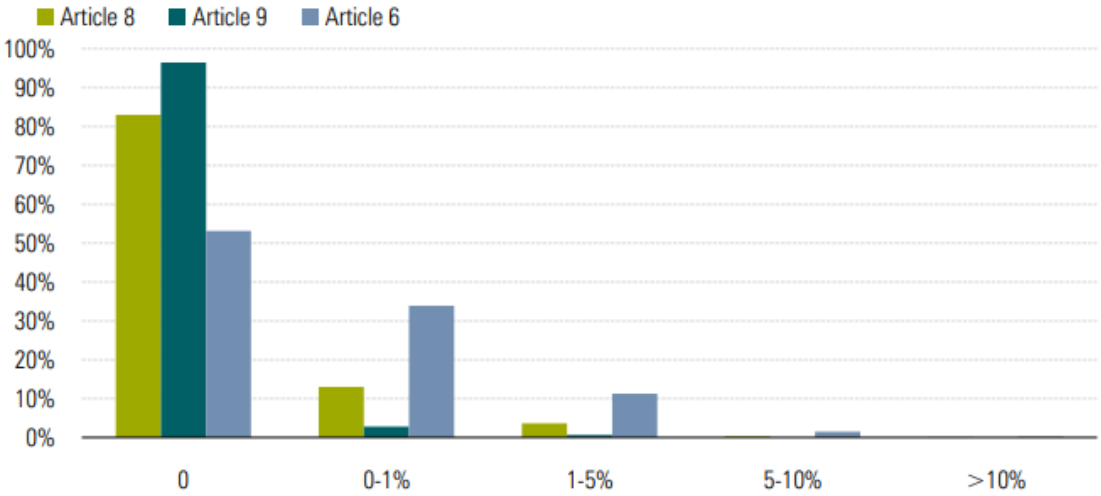
Box 6: popular exclusions implemented by funds disclosing under Art.6, 8 and 9[288]

Graph 1: Article 6, 8, and 9 Funds' Involvement in Controversial Weapons



Source: Morningstar Direct. Assets as of Dec. 31, 2022. SFDR status as of Jan. 15, 2023, so January downgrades are accounted for. Based on SFDR data collected from prospectuses on 98.2% of funds available for sale in the EU, as well as January factsheets, KIIDs, PRIIP KIDs, and fund company websites, excluding money market funds, funds of funds, and feeder funds.

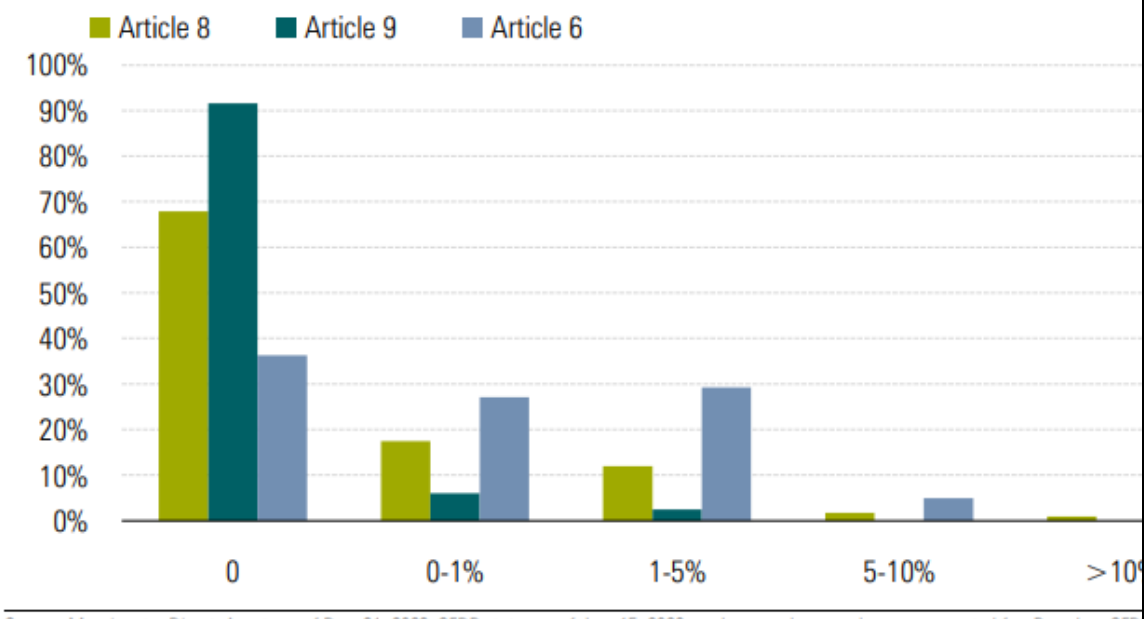
Graph 2: Article 6, 8, and 9 funds' involvement in tobacco



Source: Morningstar Direct. Assets as of Dec. 31, 2022. SFDR status as of Jan.15, 2023, so January downgrades are accounted for. Based on SFDR data collected from prospectuses on 98.2% of funds available for sale in the EU, as well as January factsheets, KIIDs, PRIIP KIDs, and fund company websites, excluding money market funds, funds of funds, and feeder funds.

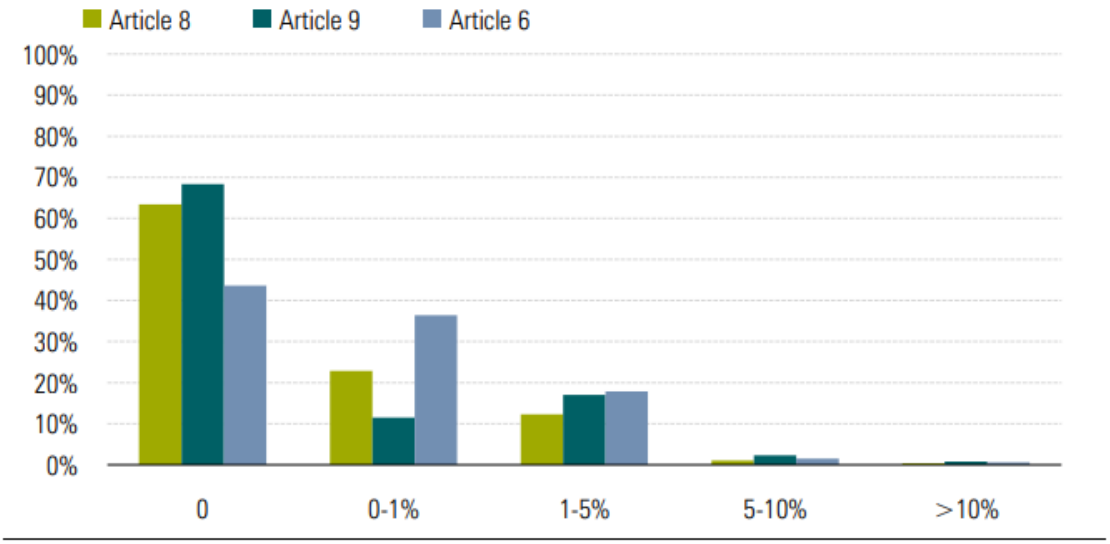
Graph 3: Article 6, 8, and 9 funds' involvement in severe controversies

[288] SFDR_Article_8_and_Article_9_Funds_Q4_2022.pdf



Source: Morningstar Direct. Assets as of Dec. 31, 2022. SFDR status as of Jan. 15, 2023, so January downgrades are accounted for. Based on SFD collected from prospectuses on 98.2% of funds available for sale in the EU, as well as January factsheets, KIIDs, PRIIP KIDs, and fund company we excluding money market funds, funds of funds, and feeder funds.

Graph 4: Article 6, 8, 9 funds involvement in thermal coal



Source: Morningstar Direct. Assets as of Dec. 31, 2022. SFDR status as of Jan. 15, 2023, so January downgrades are accounted for. Based on SFDR data collected from prospectuses on 98.2% of funds available for sale in the EU, as well as January factsheets, KIIDs, PRIIP KIDs, and fund company websites, excluding money market funds, funds of funds, and feeder funds.

Second, market analysis also shows that the PAB and CTB exclusions are generally reachable by a majority of funds that are likely to aim for a category.

The PSF report gives a first analysis of the potential impact of applying the PAB/CTB exclusions to funds that would likely aim at being categorised. It is to be noted that this study does not cover all products in scope of the SFDR (e.g. insurance and pension products are not assessed) and that there is some variability when comparing how many

companies are to be excluded, mainly due to the lack of underlying data from funds and from varying implementation methods among FMPs and data providers.

The PSF initial findings show that out of 4,300 open-end funds and ETFs with ESG or sustainability-related terms in their names, 1,600 funds might potentially breach the PAB/CTB exclusions. Graph 1 of Box 7 shows the potential breaches of these 1,600 funds. It shows that the majority of these funds hold fewer than 5 stocks potentially in breach of the exclusion criteria.

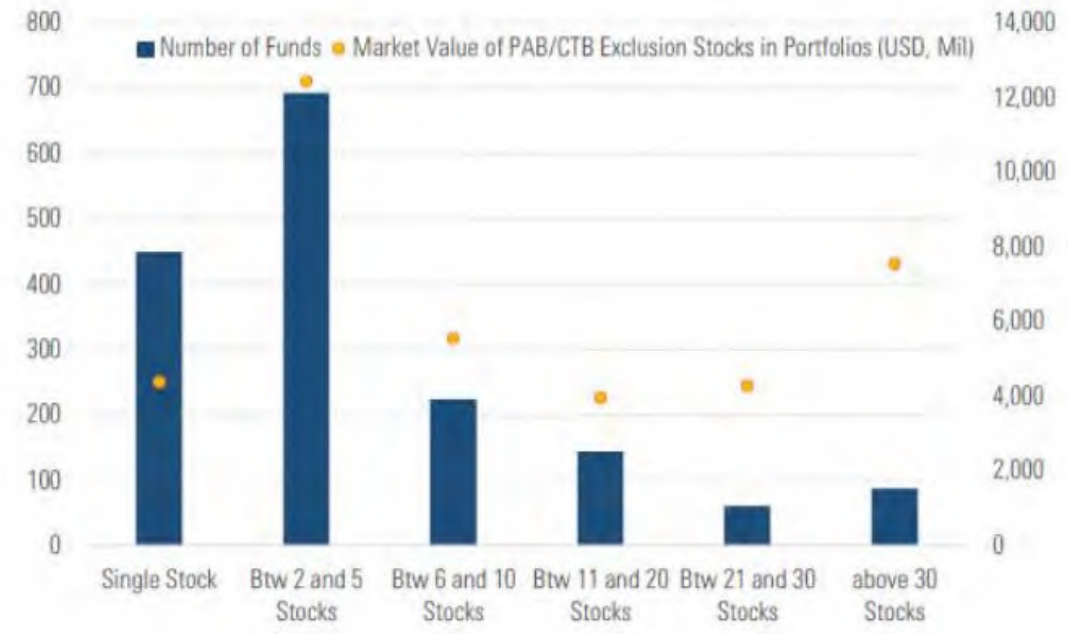
A similar study from Bloomberg gives an initial view of the average AUM that might be in breach of the PAB/CTB exclusions and indicates the main driver of exclusion. Graph 2 and 3 of Box 7 is based on a sample of 9,147 Article-8 and 814 Article-9 funds. It shows that the average AUM that would potentially need to be excluded are around 4% for the PAB exclusions and between 6 and 7% for the CTB exclusions. For the latter, the main driver of exclusions is the UNGC violations (which would be improved in any case to address the implementation challenges identified in the problem definition and evaluation annex).

Finally, the PSF report analyses the specific impact of the PAB environmental exclusions on companies in certain industries. Box 8 shows that the energy sector would potentially be most affected by stock divestment if PAB exclusions are applied. This is mainly due to the exclusion criteria linked to energy generation above a certain GHG intensity[289] (to be noted that the industry would still be able to issue use of proceeds instruments that could be invested in by categorised products – see proposal below).

[289] Commission Delegated Regulation (EU) 2020/1818, Article 12(1) g. "*companies that derive 50% or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh"*

Box 7: potential impact of the PAB/CTB exclusions on existing EU funds

Graph 1: distribution of number of companies to be excluded from around 1,600 funds when applying PAB/CTB exclusion criteria



Source: Morningstar / Sustainalytics as of May 2024

Graph 2: Impact of PAB exclusions on funds using sustainability, environmental and impact related terms

SFDR	sample fund number	thereof using terms related to sustainability, environment and impact	thereof investing in companies with PAB exclusions activities excl. UNGC violations	Total AUM - USD	Total Market Value of positions excluded - USD	Average AuM excluded
Art. 8	9,147	1,817 (20%)	1,185 (65%)	718,298,419,210	26,032,611,515	4.2 %
Art. 9	814	495 (61%)	245 (49%)	92,436,007,625	2,232,356,725	3.7 %

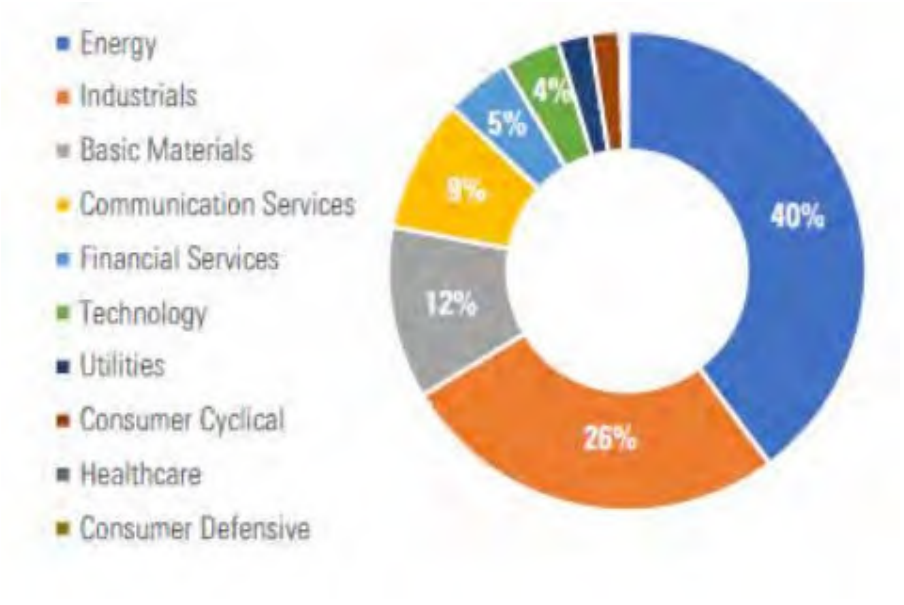
Source: Bloomberg as of November 2024

Graph 3: Impact of CTB exclusions on funds using social, transition or governance related terms

SFDR	sample fund number	thereof using terms related to social, transition or Governance	thereof investing in companies with tobacco, cont. weapons activities or UNGC violations	Total AUM - USD	Total Market Value of positions excluded - USD	Average AuM excluded
Art. 8	9,147	54 (1%)	50 (93%)	19,989,780,585	1,483,961,978	7 %
Art. 9	814	42 (5%)	32 (76%)	5,447,729,688	425,612,011	6 %

Source: Bloomberg as of November 2024

Box 8: impact of PAB exclusions on different industry



Source: Morningstar Sustainalytics and Morningstar Direct, data as of May 2024, for industries only the top 10 are shown

Finally, the PAB and CTB exclusions have already been implemented under the ESMA Guidelines on funds names by all funds using ESG-related terms in their name and the results of the implementation are positive.

Fund managers had until 21 May 2025 to either align with the requirements or change funds names to ensure compliance.

The scope of impacted funds varies from the different studies. In 2024, ESMA estimated the number of funds with ESG-related terms in their name at 6,490 while Morningstar estimated 4,570. The below relies on Morningstar findings using data from early May 2025 and March 2025[290].

Asset managers have taken **various approaches to comply with the guidelines.** Some have rebranded funds by replacing or removing ESG-related terms, with or without corresponding portfolio changes. Others have made minor adjustments, such as divesting from companies that don't meet the requirements.

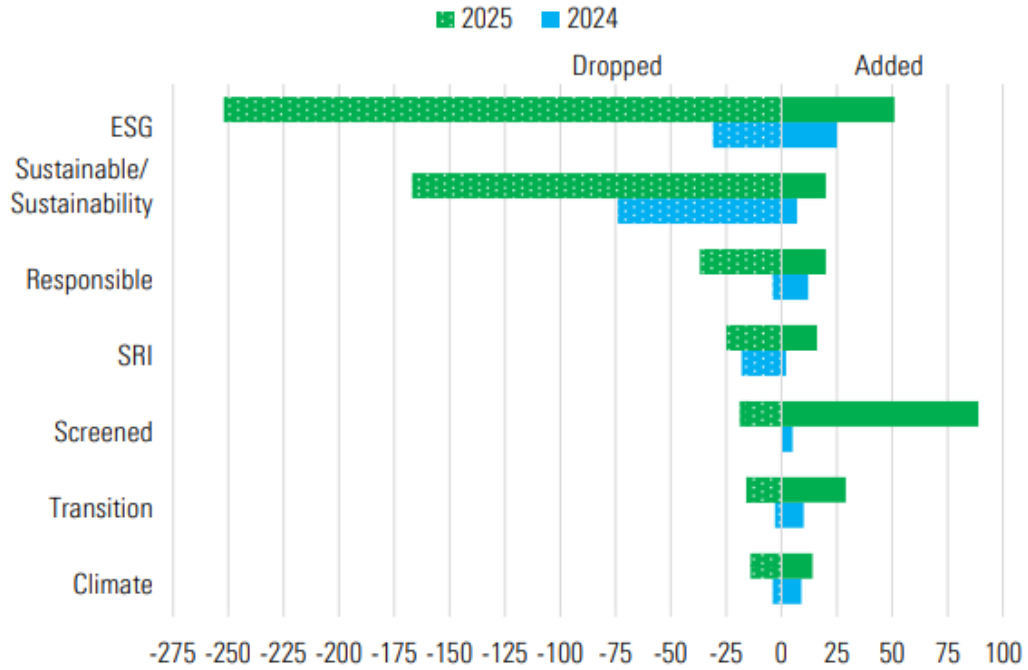
[290] All figures below are extracted from the research paper 'ESMA Guidelines on ESG Funds' Names, early insights into rebranding activity and portfolio impact' by Morningstar/Sustainalytics, 20 May 2025.

➢ Impact on the funds' name

A year after the release of the final ESMA fund naming guidelines, **the universe of EU open-end funds and ETFs with ESG-related terms in their names has dropped by only about 8% to an estimated 4,220.**

The paper estimates that **at least 880 funds, or 19% of in-scope funds, have rebranded so far, including 508 that have dropped ESG terms, 304 that have replaced one ESG-related term with another, and 68 that have added an ESG term.** Passive funds have been disproportionally affected. Among those that dropped ESG-related terms, about 200, or 40%, adopted non-ESG alternatives such as "screened", "select", or "committed", suggesting that managers remain keen to signal ESG characteristics through fund names.

The most frequently removed terms are "ESG" and "sustainable," while terms such as "transition," "climate," and "screened" have gained in popularity.



Source: Morningstar Direct. Data as of May 14, 2025. Based on 880 in-scope funds between May 2024 and May 2025. The count of "Added" funds doesn't include newly launched funds. Funds that dropped ESG key terms include those that removed the terms and funds that swapped their original ESG terms for other terms. Data includes money market funds, funds of funds, and feeder funds.

➢ Impact on the funds' portfolio

Looking at March 2025 portfolios, the impact of the guidelines' exclusion rules on in-scope funds is already evident. The number of funds holding "contentious" stocks has declined compared with a year ago[291].

The exhibits below highlight 25 of the most commonly held "contentious" companies in the sample' portfolio in 2024 and in 2025 (see method in footnote), showing the number

[291] Research method from Morningstar/Sustainalytics: First identified the companies that should be excluded under the CTB and PAB exclusion rules, using Morningstar Sustainalytics' product involvement and controversies research to build the exclusion lists. Then selected a sample of 2320 in-scope funds with complete portfolio equity holdings for both May 2024 and March 2025.

of funds holding each stock, their average portfolio weight, the aggregate holding value and the main reasons for exclusions. Overall, the number of funds holding these stocks declined from May 2024 to March 2025, accompanied in many cases by a decrease in both average portfolio weight and aggregate holding value. It is fair to assume that part of the decline can be attributed to stock divestments made to comply with the ESMA guidelines.

		Number of Investing Funds		Average Weight (%)		Market Value (USD Mil)			
Company	Country	May 2024	March 2025	May 2024	March 2025	May 2024	March 2025	Industry	Main Reason for Exclusion
TotalEnergies	France	280	214	2.2	1.5	3,094	2,062	Oil & Gas Integrated	Oil & Gas Production
Neste	Finland	242	143	0.4	0.3	413	242	Oil & Gas Refining & Marketing	Oil & Gas Production
Quanta Services	US	236	242	0.6	0.5	763	744	Engineering & Construction	Oil & Gas Supporting Prod/Serv
Emerson Electric	US	202	191	0.6	0.5	818	749	Specialty Industrial Machinery	Oil & Gas Supporting Prod/Serv
Intertek Group	UK	196	185	0.5	0.5	353	305	Specialty Business Services	Thermal Coal Supporting Prod/Serv
Wartsila	Finland	194	106	0.3	0.4	327	109	Specialty Industrial Machinery	Oil & Gas Supporting Prod/Serv
Baker Hughes	US	185	178	0.3	0.4	801	967	Oil & Gas Equipment & Services	Oil & Gas Supporting Prod/Serv
The Toronto-Dominion Bank	Canada	182	141	0.5	0.5	856	660	Banks - Diversified	Non-Compliant with UNGC
Grupo ACS	Spain	177	176	0.3	0.4	339	358	Engineering & Construction	Thermal Coal Supporting Prod/Serv
Tencent Holdings	China	153	152	3.3	4.0	2,717	3,350	Internet Content & Information	Non-Compliant with UNGC
Schlumberger	US	152	130	0.5	0.4	624	534	Oil & Gas Equipment & Services	Oil & Gas Supporting Prod/Serv
Cheniere Energy	US	150	138	0.3	0.4	446	639	Oil & Gas Midstream	Oil & Gas Production
Yokogawa Electric	Japan	150	133	0.2	0.1	112	92	Specialty Industrial Machinery	Oil & Gas Supporting Prod/Serv
Equinor	Norway	150	123	0.5	0.4	302	244	Oil & Gas Integrated	Oil & Gas Production
Albemarle	US	148	104	0.5	0.3	263	146	Specialty Chemicals	Oil & Gas Supporting Prod/Serv
LyondellBasell Industries	US	141	111	0.3	0.2	260	151	Specialty Chemicals	Oil & Gas Production
Valero Energy	US	137	111	0.3	0.2	341	241	Oil & Gas Refining & Marketing	Oil & Gas Production
Oneok	US	136	122	0.3	0.3	383	507	Oil & Gas Midstream	Oil & Gas Production
OMV	Austria	133	92	0.3	0.3	164	113	Oil & Gas Integrated	Oil & Gas Production
Anglo American	UK	130	104	0.7	0.6	336	250	Other Industrial Metals & Mining	Thermal Coal Extraction
Repsol	Spain	130	100	0.4	0.4	295	201	Oil & Gas Integrated	Oil & Gas Production
Galp Energia	Portugal	130	106	0.3	0.2	193	132	Oil & Gas Integrated	Oil & Gas Production
Daikin Industries	Japan	129	107	0	0.5	647	370	Building Products & Equipment	Controversial Weapons
Halliburton	US	126	107	0	0.1	416	240	Oil & Gas Equipment & Services	Oil & Gas Supporting Prod/Serv
Kinder Morgan	US	121	81	0	0.3	310	190	Oil & Gas Midstream	Thermal Coal Supporting Prod/Serv

Source: Morningstar Sustainalytics and Morningstar Direct. Data as of May 2024. Based on the equity holdings of 2,320 in-scope funds that have complete holding records in both May 2024 and March 2025, including 1,867 equity strategies and 451 allocation strategies.

The paper also conducts the same analysis focussing on funds that have retained ESG-related terms in their names. This reduced universe of approximately 2,590 funds is required to completely divest from stocks in breach of the ESMA guidelines. As expected, there are more divestments (in relative terms). For example, the number of funds holding TotalEnergies shares dropped by 34% between May 2024 and March 2025 (to 139 from 210), compared with the 24% decrease seen earlier among the full sample of funds with complete portfolio holdings over the observation period. Similar divestment outcomes were found in other energy stocks including Neste (47% versus 41%, previously), Repsol (30% versus 23%), Galp Energia (30% versus 18%), and Eni (45% versus 28%).

While we can expect some of the stocks listed below to no longer feature in these portfolios going forward, others may remain due to differing interpretations of the rules and variations in data sources.

Company	Country	Number of Investing Funds		Average Weight (%)		Market Value (USD Mil)		Industry	Main Reason for Exclusion
		May 2024	March 2025	May 2024	March 2025	May 2024	March 2025		
TotalEnergies	France	210	139	2.2	1.3	2,088	1,249	Oil & Gas Integrated	Oil & Gas Production
Neste	Finland	192	102	0.4	0.3	338	199	Oil & Gas Refining & Marketing	Oil & Gas Production
Quanta Services	US	186	198	0.7	0.6	611	623	Engineering & Construction	Oil & Gas Supporting Prod/Serv
Intertek Group	UK	152	135	0.5	0.5	287	228	Specialty Business Services	Thermal Coal Supporting Prod/Serv
Emerson Electric	US	147	136	0.6	0.6	625	547	Specialty Industrial Machinery	Oil & Gas Supporting Prod/Serv
Wartsila	Finland	146	81	0.4	0.4	248	81	Specialty Industrial Machinery	Oil & Gas Supporting Prod/Serv
The Toronto-Dominion Bank	Canada	142	117	0.4	0.4	603	501	Banks - Diversified	Non-Compliant with UNGC
Baker Hughes	US	132	128	0.4	0.4	589	673	Oil & Gas Equipment & Services	Oil & Gas Supporting Prod/Serv
Grupo ACS	Spain	132	128	0.4	0.4	262	266	Engineering & Construction	Thermal Coal Supporting Prod/Serv
Tencent Holdings	China	118	113	3.1	4.1	1,437	1,726	Internet Content & Information	Non-Compliant with UNGC
Yokogawa Electric	Japan	114	102	0.2	0.2	72	59	Specialty Industrial Machinery	Oil & Gas Supporting Prod/Serv
Cheniere Energy	US	107	91	0.3	0.4	273	443	Oil & Gas Midstream	Oil & Gas Production
Albemarle	US	106	76	0.6	0.4	206	118	Specialty Chemicals	Oil & Gas Supporting Prod/Serv
Schlumberger	US	99	78	0.4	0.3	288	283	Oil & Gas Equipment & Services	Oil & Gas Supporting Prod/Serv
Repsol	Spain	99	69	0.4	0.4	206	124	Oil & Gas Integrated	Oil & Gas Production
Valero Energy	US	96	73	0.3	0.2	236	147	Oil & Gas Refining & Marketing	Oil & Gas Production
Galp Energia	Portugal	95	66	0.4	0.2	143	101	Oil & Gas Integrated	Oil & Gas Production
Daikin Industries	Japan	94	77	0.6	0.4	499	287	Building Products & Equipment	Controversial Weapons
Equinor	Norway	94	78	0.4	0.4	149	139	Oil & Gas Integrated	Oil & Gas Production
Anglo American	UK	93	67	0.7	0.6	200	142	Other Industrial Metals & Mining	Thermal Coal Extraction
Oneok	US	91	78	0.2	0.3	195	211	Oil & Gas Midstream	Oil & Gas Production
LyondellBasell Industries	US	91	67	0.3	0.2	160	95	Specialty Chemicals	Oil & Gas Production
OMV	Austria	89	54	0.4	0.4	103	76	Oil & Gas Integrated	Oil & Gas Production
Eni	Italy	85	47	0.7	0.5	236	89	Oil & Gas Integrated	Oil & Gas Production
Halliburton	US	85	70	0.1	0.1	245	129	Oil & Gas Equipment & Services	Oil & Gas Supporting Prod/Serv

Source: Morningstar Sustainalytics and Morningstar Direct. Data as of May 2024. Based on the equity holdings of 2,589 in-scope funds that have complete holding records in both May 2024 and March 2025 and have not added, dropped, or swapped any ESG-related terms, including 1,504 equity strategies and 401 allocation strategies.

- Preliminary conclusions

It can be concluded that the ESMA guidelines on funds names had a significant impact in the claims made by FMPs both in the names and portfolio constructions. The fact that the universe of funds using ESG-related terms only decreased by 8% shows that most of funds in scope managed to implement the ESMA criteria.

If the criteria for the categories build on the ESMA criteria, most of the one-off implementation cost would have already been borne by funds in scope of the ESMA guidelines.

SECTION 2: UNDERLYING DISCLOSURES FOR THE CATEGORIES PROPOSED UNDER OPTION 2.2

There is considerable evidence from the consultations that the vast majority of end-investors would be better served by shorter and more focused information. This is also confirmed by the findings of Annex 10.

Option 2.2 therefore moves away from relying on standardised questions for all ESG financial products and suggests refocussing **the templates on fewer indicators and sustainability topics which are relevant for investors' decision.** Consumer-facing disclosures should provide consumers with information on the key sustainability characteristics of products in a simple, accessible, consumer-friendly way. This would also allow for an easier comparability of products with an easy-to-use source of information. Together with the categories, this would help them assess whether products meet their needs and preferences.

Option 2.2 is therefore coherent with the creation of categories, with disclosures tailored to the categories under which products fall (i.e. specific disclosures would depend on whether a product is largely composed of sustainable assets, or transitioning assets, or if the product implements other ESG processes). The disclosures would rely on **clear, measurable and usable concepts** (i.e. the suggested criteria described above) and on ESG concepts for which information is either available from investee companies or possible to estimate.

The below suggests to focus the specific disclosures on the underlying criteria of each category. This would allow investors to clearly understand (1) the ambition to be expected from categorised products; (2) the specific sustainability objective and its accompanying strategy; (3) what the product does not invest in for sustainability-related reasons. On top of that, a short set of ESG KPIs (e.g. 3 KPIs) would allow consumers to compare products based on topics that are deemed relevant depending on the category. These KPIs would need to rely on sustainability topics for which information is either available from investee companies or possible to reliably estimate by FMPs/data providers when the information is missing.

The below provides mock templates for illustrative purposes only. The detailed elements and final design of the template should be developed at a later stage at level 2 to allow for additional consumer studies to be conducted.

Product Name[292]
Sustainable Category "To qualify for the sustainable category, a financial product must contribute to a sustainability objective and meet EU minimum standards on climate and social issues."
What is the sustainability objective(s)? Short description. *E.g. This product focuses on investing in companies that improve health and wellbeing.*
A short description of the strategy and of the KPI/s used to measure the

[292] And authorisation details

contribution *E.g. At least 70/80% of investments are made in innovative companies in the sectors of medicine, diagnostics, healthcare services, medical devices and equipment.* [KPIs used to measure the contribution] *e.g. % of revenues derived from the generation of medicine, diagnostics etc…* [top 5 investments]
[Additional voluntary KPIs] KPI 1 *(e.g. related to climate performance)* KPI 2: *(e.g. related to pollution control or animal testing)*
Exclusions: There are no investments made in - companies involved in any activities related to **controversial weapons**; - companies involved in the cultivation and **production of tobacco**; - companies in **violation of the United Nations Global Compact** (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises; - companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of **hard coal and lignite**; - companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of **oil fuel**s; - companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of **gaseous fuels**; - companies that derive 50 % or more of their revenues from electricity generation with a **GHG intensity** of more than 100 g CO_2 e/kWh. - companies involved in fossil fuel expansion or without coal phase-out plans

Product Name[293]
Transition Category "To qualify for the transition category, a financial product must contribute to a transition objective and meet EU minimum standards on social issues."
What is the transition objective(s)? Short description. *E.g. This product invests in companies and projects contributing to global decarbonisation and the climate transition*
A short description of the strategy and of the KPI/s used to measure the

[293] And authorisation details

contribution *E.g. At least 70/80% of investments are made in 'climate solutions' – low-carbon technologies, nature-based solutions, and greenhouse gas removal. The product also ensures a reduction of the overall GHG emission of the underlying investee of at least 7% per annum.* [KPIs used to measure the contribution] *e.g. % of partial alignment with the EU Taxonomy on relevant climate or environmental objective(s)* [top 5 investments]
[Additional voluntary ESG KPIs] KPI 1 *(e.g. portion of investments in companies with a transition plan/science-based targets)* KPI 2: *(e.g. related to water use or circular economy)*
Exclusions: There are no investments made in - companies involved in any activities related to controversial weapons; - companies involved in the cultivation and production of tobacco; - companies in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises; - companies involved in fossil fuel expansion or without coal phase-out plans

Product Name[294]
'Other ESG' Category "To qualify for the 'Other ESG' category, a financial product must put in place an ESG strategy and meet EU minimum standards on social issues."
What is the ESG strategy Short description. *E.g. This product offers global exposures to a global investment benchmark/index while integrating environmental, social and governance screenings (i.e. 70/80% tilt toward companies with stronger ESG scores). To do so, the product only selects companies that are amongst the best 50% ESG performers in their sectors.* [top 5 investments]
[Additional voluntary ESG KPIs] KPI 1 *(e.g. GHG emissions)* KPI 2: *(e.g. related to additional human rights screening beyond the exclusion below)*
Exclusions: There are no investments made in - companies involved in any activities related to controversial weapons; - companies involved in the cultivation and production of tobacco; - companies in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises;

[294] And authorisation details

SECTION 3: SUGGESTED APPROACH TO ESTIMATION

Estimates are often used to refer to data that has been proxied or derived from a third-party source. **Due to data shortages the use of estimates will be inevitable** and is already part of current market practices [295]. In fact, the investable universe for financial products always extended beyond listed and larger EU companies, including non-EU companies and assets that are not covered by EU reporting rules. No EU legislation such as the CSRD would have ever closed this data gap.

While estimations always carry some levels of greenwashing risks, these risks can be reduced by the following possible measures:

1. **Focussing the criteria and the disclosures on ESG concepts which are possible to estimate**.

A key issue linked with estimations under the current SFDR is the nature of certain datapoints which cannot be estimated when the information is not available. Examples include the principal adverse impact on 'board gender diversity', defined as the average ratio of female to male board members in investee companies, expressed as a percentage of all board members. If the company does not disclose/communicate its board composition, FMPs/external providers cannot reasonably estimate such data.

To lower the risk of incorrect/weak estimation, the SFDR criteria and disclosures should focus on sustainability data points for which estimation is possible (e.g. which are binary or where using sectoral and geographical averages is possible) and where market practices are well established.

Main findings on the positive state of play of estimations on exclusions:

The Platform for Sustainable Finance ran a survey[296] with data vendors to assess the comparability of data that an institutional investor would receive when retrieving the best available relevant data from a range of vendors to report on a global portfolio. The survey was carried out via an open call to capture the current state of affairs for data availability and quality as offered by different data vendors. A random sample of EU and non-EU securities were chosen that was large enough for statistically relevant analysis (N=300).

The survey concluded that high levels of consistency were found in the estimations of exclusion across vendors, with 80% of issuers showing 0% divergence in their estimations of PAB exclusions.

Common market practices on the estimations of the PAB exclusions include the use of sector average, or modelling using business activity and exposure (e.g. looking at the average emissions per revenue or per employee of companies in the same NAICS sector,

[295] Between 30% and 50% of the average holdings of EU asset managers consist of entities not subject to CSRD reporting requirements (and therefore do not publish Taxonomy or CSRD sustainability data). As a result, FMPs are already forced to source the missing data either internally or commercially from third-party providers. See ESMA report on Trends, Risks and Vulnerabilities (TRV), 2023

[296] EU Platform on Sustainable Finance, Data Vendor Survey 2024, March 2025

similar production size and same energy mix). Most market practices include the implementation of the precautionary principle[297], see chart below.

2. Additional disclosures around estimation practices from FMPs

When FMPs generate their own estimations, the SFDR could introduce similar obligations to the transparency requirements for estimations under the Benchmark Delegated Regulation [298]. These include **disclosures on the research and calculation methodology, on assumptions underlying estimates and precautionary principles, on the use of external data providers.** The elements to be disclosed by the FMPs would be part of the products' legal documentations and will therefore be supervised by NCAs (as it is the case for SFDR disclosures today) who, in contrast to today, would thus be provided with clearer information to judge whether the estimates are robust enough.

For cases when FMPs use an external provider, FMPs could instead be asked to disclose the proportion of information estimated vs information not estimated. This is because estimation methodologies are normally not disclosed by data providers for competition reasons.

Other possible measures to limit greenwashing risks linked to estimations, such as regulating third-party providers or ESG data products, do not emerge as major shortcomings from the evaluation carried out for the review, would be at odds with the objectives of the targeted review of the SFDR as a simplification initiative by extending its regulatory scope, and were thus deemed as incompatible with the simplification and burden reduction agenda or already discarded in past impact assessment [299]. Beyond the steps to formalise the practice of reliance on estimates, and to base this practice on datapoints which are most available and of interest to investors, there is little evidence to suggest that extending the regulatory perimeter of the SFDR to ESG data providers would help bring down costs further. Rather it can be expected that any costs of additional regulatory would be passed on through data users across the investment chain, adding to overall costs of ESG investing. It could thus be ineffective, incoherent and counterproductive to undertake piecemeal regulatory steps to any address issues in data providers' business models, solely involving their ESG data.

[297] 'Emissions estimations should embed a precautionary principle', Andreas G.F. Hoepner and Joeri Rogelk

[298] Commission Delegated Regulation (EU) 2020/1818, Article 13.

[299] The Impact Assessment report SWD (2023)204 accompanying the Commission proposal for an ESG rating regulation has discarded the option of harmonising methodologies and on setting minimum content requirements for ESG ratings. The same logic would apply for ESG data products (i.e. ESG estimates).

Chart on the implementation of the precautionary principle to estimate GHG emissions

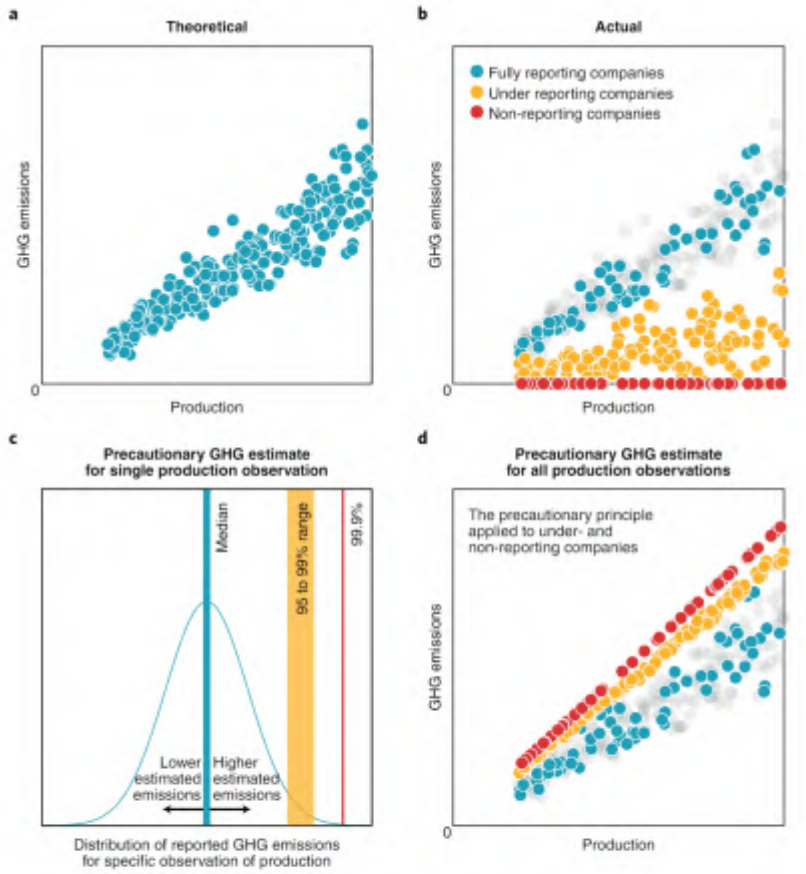


Fig. 1 | Application of the precautionary principle to estimation of under- and non-reporting companies. **a**, Theoretical distribution of company GHG emissions as a function of production. **b**, Illustrative actual distribution of company GHG emissions under full (blue), underreporting (yellow) and non-reporting (red) scenarios. **c**, Proposed application of the precautionary principle to estimate the GHG emissions for an under- or non-reporting company with a specific production level. **d**, Outcome of the application of the precautionary principle to estimating under- and non-reporting emissions, providing incentives for improvement.

ANNEX 9: EXAMPLES OF EXISTING ESG LABELLING REGIMES AND ESG RULES BY NCAS OR LABEL PROVIDERS

A. Examples of NCAs practices

NCA	Scope	Criteria
AMF (France) Doctrine[300]	Mandatory for retail funds established in France. Non-French funds have to include a disclaimer in their marketing material if they do not comply	Three types of funds, depend on how active product provider can communicate around ESG: Type 3: funds which do not take into account (or lightly) non-financial criteria required to limit the communication around extra-financial criteria to their prospectus; Type 2: funds which take extra-financial criteria into account without taking a significant commitment require -measurable objectives for consideration of non-financial criteria (a discretionary rate of exclusion for the selectivity approach) - higher rating indicator or extra-financial analysis than investment universe - minimum of 90% of the assets must be provided with extra-financial ratings and analysis or 75% for emerging markets. Type 1: funds which significantly commit to take into account extra-financial criteria requires specific binding measurable objectives for consideration of non-financial criteria (20% exclusion of the worst assets for the selectivity approach for instance) and a minimum of 90% of the assets must be provided with extra-financial ratings and analysis.
BaFin (Germany) Guidance (no published final version; administrative practice similar to consultation paper)[301]	German retail funds which use an ESG related term in the name or are marketed explicitly as sustainable	Alternative 1 1. Compliance with a minimum investment ratio in sustainable assets (75 %) 2. DNSH including specified exclusions (e.g. < 10% fossil fuels (ex gas); < 5% coal, oil; 0% oil sand / shale) 3. Good governance Alternative 2 1. Adherence to a sustainable investment

[300] Information to be provided by collective investment schemes incorporating non-financial approaches | AMF

[301] BaFin - Consultations - Consultation 13/2021 - Draft BaFin Guideline for Sustainable Development ...

		strategy, e.g. best in class (75%) 2. DNSH including specified exclusions (e.g. < 10% fossil fuels (ex gas); < 5% coal, oil; 0% oil sand / shale)
Finansinspektionen (Sweden) and FSA (Denmark)	All products within the ESMA guidelines on funds name	Although the ESMA clarified[302] in December 2024 that a 'meaningful' allocation to sustainable investments should be at least 50%, regulators in in Sweden and Denmark impose higher thresholds of 80% and 85% respectively.

B. **Examples of existing labels in the EU[303]**

Name and region	Products	Criteria
CDP Climatrics[304]	Funds	- Rating based on the environmental impact, transparency, and performance of their portfolio companies. - Score components relate to climate, water, and forest. - A fund's portfolio score is the portfolio weighted average of the underlying holdings' company scores.
Ecolabel UZ 49 (Austria)[305]	Funds, IBIPs, Green Bonds, savings products	- Exclusion relating to nuclear, armaments, fossil fuels, genetic engineering, human rights violations, lack of minimum commitment to labour standards. Note: separate criteria for public issuers and real estate - Investment policy and selection criteria, survey, evaluation, and selection processes of sustainable investment products must be above average or contribute to present/future problem or exclude certain issues on environmental or social aspects. Other criteria apply for Real estate and Bonds.

[302] ESMA Q&A on the application of the Guidelines on funds' names, 13 December 2024
[303] Also see for more information: A Comparative Study of European Sustainable Finance Labels by Karina Megaeva, Peter-Jan Engelen, Luc Van Liedekerke, available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3790435, and Sustainable investment fund labelling frameworks: An apples-to-apples comparison available at: https://qontigo.com/sustainable-investment-fund-labeling-frameworks-an-apples-to-apples-comparison/ . Plus de 2 000 fonds labellisés aux promesses confuses (October 2023) shows a table with AuMs of such labels (https://www.novethic.fr/financedurable/publications/etude/fonds-durables-labellises-en-europe.html).
[304] CDP
[305] Umweltzeichen Richtlinie

FNG-Siegel[306] (Germany)	Funds	- Exclusions relating to nuclear, armaments, fossil fuels, fracking and oil sand, tobacco, human rights violations, corruption lack of minimum commitment to labour standards. Note: separate criteria for public issuers - SFDR Art. 8 & 9, analysis of ESG criteria of all holdings - EuroSIF Transparency Codex - Enhancements through additional requirements including investment approaches, credibility of institution and product standards (research, communication)
Greenfin (France)[307]	Climate oriented products	- Investment in EU issuers, Green bonds or certain other debt securities. - Detailed exclusions related to fossil fuel - Monitoring mechanism for ESG controversies - Measurement of positive impact
ISR Label (France)[308] (soon to be revised)	Financial Products	Label does not set per se criteria of what is considered sustainable but is focusing on assessing policy vs. results as follows: - Assessment of the objectives targeted by the fund. - Assessment of the analysis and rating methodology used by the asset manager. - Assessment of inclusion of criteria in the portfolio construction - Engagement policy & Transparency.
LuxFLAG[309]	Financial products	Diverse range of labels distinguishing between: - Impact: Microfinance, Environment, Climate Finance, Green Bond. - Sustainability Transition Labels: ESG, ESG Insurance Products, ESG Discretionary Mandate.
Nordic Swan Ecolabel[310]	Funds & Investment Products	- Exclusion relating to coal, oil, gas, nuclear, tobacco, weapons, and non-compliance with international norms. - Assessment of ESG & EU Taxonomy performance on all holdings - Investment in companies with high GHG emission only if company meets strict reduction requirements.

[306] Criteria – FNG Seal
[307] ecologie.gouv.fr/politiques-publiques/label-greenfin
[308] Label ISR - Pour des placements durables et responsables
[309] Investment funds and investment products 101
[310] Investment funds and investment products 101

		- Analysing biodiversity performance and engagement with companies performing poorly. - 70% in holdings with strong sustainability practices. - Promoting companies with clear environmental objectives. - Active Ownership.
Towards Sustainability Initiative (Belgium)[311]	Financial products	- Exclusion regarding weapons, tobacco, coal, unconventional oil & gas and laggard oil & gas and electricity utilities, non-violation of international norms and standards. - Investment is screened for potential positive or negative impact on sustainability issues. Additionally, the possible impact of sustainability events like climate change, social unrest or legal controversies is analysed. - Positive impact through additional strategy like best in class, sustainability themed, impact investing, outperforming a benchmark, overweighting and underweighting positions, engagement.

C. UK sustainability disclosure requirements (SDR) and investment labels

The UK introduced new sustainability disclosures requirements (SDR) and investment labels which began applying in 2024[312]. This covers anti-greenwashing rules for all authorised firms, requirements for sustainability-related claims to be fair, clear and not misleading, naming and marketing rules for investment funds making ESG claims, as well as four labels to help investors navigate the investment product landscape: (i) sustainability focus (products mainly investing in assets that are already sustainable); (ii) sustainability improvers (products mainly investing in transitioning assets); (iii) sustainability impact (products mainly aiming at a very targeted contribution); and (iv) a mixed category.

Research published by the Investment Association in early 2025[313] compared responses from 50 UK firms regarding implementation of the new rules.

Key findings:

[311] Towards Sustainability Initiative | Towards Sustainability
[312] PS23/16: Sustainability Disclosure Requirements (SDR) and investment labels | FCA
[313] The second annual SDR Implementation Survey (April 2025): Implementation challenges slow SDR label adoption, despite transparency gains | Press Releases | The Investment Association
SDR: Investor and adviser awareness, understanding and expectations: SDR investor and adviser awareness, understanding and expectations 2025.pdf

- Over a third (39%) of firms have adopted an SDR label for at least one of their funds, although the figure is less than anticipated in a prior survey (106 labelled funds in the market compared to the anticipated 216).
- Sustainability Focus is the most popular label, with 63 funds approved, followed by Sustainability Impact (22), Sustainability Improvers (17) and Sustainability Mixed Goals (4).
- Fund labelling process has improved transparency. Almost all (91%) surveyed firms adopting an SDR label have updated the labelled fund's investment policy or strategy to be more transparent on the fund's sustainability approach, and 83% have added a sustainability investment objective for at least one fund. 39% of firms agree that the SDR regime will make it easier for investors to find and compare non-labelled funds with sustainability characteristics. In addition, 35% of firms agree that the SDR framework gives sufficient flexibility to accommodate different types of sustainable investment approaches. Further research from the Investment Association and The Wisdom Council found that almost all (94%) retail investors with a propensity for sustainable investing agreed that they would find the labelling regime helpful.
- Some challenges are however also noted. Almost half (49%) of firms have at least one fund that they considered adopting a label for but later decided against it, with a third (32%) making this decision after going through the authorisation process (firms who successfully applied for a label are said to have had to resubmit applications on average three times for their first labelled fund). Firms are also unsure if SDR will lead to more money invested into these products. Just 14% of firms agreed that the SDR regime will result in more capital flows into sustainable funds over the next three years.
- Beyond the labels, naming and marketing rules are said to have had a broader impact, as non-labelled funds with sustainability characteristics cover a larger market share than labelled funds. 80% of survey respondents have non-labelled funds that are subject to additional disclosure requirements under the naming and marketing rules. At least 340 funds fall into this bucket, more than three times as many funds as those which have a label. The most common approaches taken by these funds are negative/exclusionary screening (83%), ESG integration (75%) and positive tilt (55%). Over half (55%) of firms had to make changes to their funds as a result of the naming and marketing rules, with almost a third (28%) replacing a restricted term with a non-restricted term in the fund name, and a quarter (26%) removing a restricted term from a fund name.

ANNEX 10: FINDINGS FROM CONSUMER TESTING STUDIES

Executive summary

In the context of the ongoing SFDR assessment, we have analysed existing studies/surveys on retail investors' sustainability objectives and understanding. This finding should support our impact assessment when considering potential changes to ESG disclosures and the potential set up of sustainability-related categories for financial products. This analysis focuses on high level elements; more granular aspects of retail investors' preferences should be analysed in preparation of potential level 2 rules which are difficult to predict at this stage.

Key findings include: (1) strong appetite for sustainable products; (2) main drivers for such appetite are financial returns/economic outlook, personal values and wanting to have a positive impact; (3) there are a wide range of sustainability objectives/themes that retail investors want to see reflected in sustainable products, covering both environmental and social issues; (4) main barriers to ESG investing today are the fear of greenwashing due to inadequate ESG disclosures (length, complexity, technical jargon).

While the existing studies present some limitations (e.g. global samples rather than EU only, small samples, targeted populations that might not reflect the average retail investors…), they already give us an idea of what EU retail investors might be interested in and their expectations. The below summarises all existing studies that we have found.

1. **Investors' interest in sustainable investing is high**

Preliminary conclusion: recent data confirms that consumers' interest in sustainable investment products remains strong.

Global/EU statistics:

- **Globally, more than three quarters (77%) of global investors are interested in sustainable investing. 57% say their interest increased in the last two years and 54% anticipate increasing their sustainable investments in the next year[314].**
- **In Europe (UK, France, Germany, Switzerland), 85% individual investors declared being interested in sustainable investing[315].**
- **55% of EU investors surveyed** are interested in sustainable finance solutions[316].
- More than 60% of Europeans find it important that their savings and investments do not fund economic activities that have a negative impact on the planet. However, only 34% knew whether their private savings and investments were

[314] "Sustainable Signals, understanding individual investors' interests and priorities" Morgan Stanley institute for sustainable investing and wealth management (2024) – responses from global sample (US, Europe – France, Germany, UK, Switzerland - and Japan)

[315] "Sustainable Signals, understanding individual investors' interests and priorities" Morgan Stanley institute for sustainable investing and wealth management (2024) – responses from European sample. How interested are you in sustainable investing?" Possible answers: Very interested, Somewhat interested, Not too interested, Not at all interested.

[316] **Survey from 2degrees investing** (survey question A7r2) "I am Interested in sustainable finance solutions" Possible answers: Strongly agree, agree, neither agree nor disagree, disagree, strongly disagree.

invested into sustainable economic activities, and 29% received information on the sustainability impact of financial products or services[317].

National statistics

- **59% of Belgian investors** would include sustainable investments in a mixed portfolio, while **28%** would prefer a fully sustainable portfolio. 13% would invest only in traditional/non-sustainable investments.[318]
- **66% of French investors say that sustainable development issues are important for them. 75% of respondents say that the impact of investments on the environment is an important issue[319].**
- **58% of German investors would prefer funds that take some ESG criteria into account, while 8% prefer conventional (no ESG) fund. 33% of respondents prefer savings account over any investment fund.**[320]
- **EU investors[321] in the survey were asked: "Compared to five years ago, how important has sustainable investing become to you?".**

  On average, EU investors responded: 77% more important, 20% no change, 3% less important.

  Participants from different countries responded:

  - **Austria: 77% more important, 21% no change, 3% less important**
  - **Belgium: 69% more important, 27% no change, 4% less important**
  - **Denmark: 74% more important, 21% no change, 6% less important**
  - **France: 79% more important, 19% no change, 3% less important**
  - **Germany: 78% more important, 19% no change, 2% less important**
  - **Italy: 72% more important, 26% no change, 2% less important**
  - **Netherlands: 72% more important, 25% no change, 3% less important**
  - **Poland: 81% more important, 17% no change, 2% less important**
  - **Portugal: 85% more important, 14% no change, 2% less important**
  - **Spain: 81% more important, 18% no change, 1% less important**
  - **Sweden: 80% more important, 17% no change, 3% less important**
- **Furthermore, they were asked: "Compared to five years ago, how have your investments in sustainable investment funds changed?". Responds follow:**
  - **Austria: 55% Increase, 32% no change, 6% decrease**
  - **Belgium: 54% Increase, 32% no change, 8% decrease**
  - **Denmark: 54% Increase, 29% no change, 10% decrease**
  - **France: 63% Increase, 26% no change, 7% decrease**

[317] Retail Financial Services and Products - October 2022 - - Eurobarometer survey

[318] "Towards sustainable investing: how retail investors can create an impact", Deloitte Belgium, 2024. Sample only includes Belgian invests. Question: "Composition of new portfolio" Possible answers: Mix, Only sustainable, Only traditional – non-sustainable.

[319] The French and responsible investments, July 2023, AMF. Only French sample.

[320] Eckert et al. (2022) responses from German sample of 3699 investors. Question was "Imagine you intend to invest in a fund. Which of the following funds would you personally prefer?
a)Fund that does not take ESG criteria into account (8%) b) fund that takes ESG criteria into account (17%) c) fund that not only takes ESG criteria into account, but actively promotes companies' progress toward increased sustainability (impact fund) (41%) d) not choose a fund and prefer to have my money in my banking account (33%)

[321] Schroders_Report_Sustainable-Investing_Final., Schroders (2019), responses from 22,000 participants from 30 countries (EU + others). The percentages extracted refer only to EU respondents.

- **Germany: 61% Increase, 31% no change, 5% decrease**
- **Italy: 55% Increase, 32% no change, 7% decrease**
- **Netherlands: 56% Increase, 33% no change, 6% decrease**
- **Poland: 59% Increase, 32% no change, 7% decrease**
- **Portugal: 63% Increase, 27% no change, 6% decrease**
- **Spain: 61% Increase, 32% no change, 4% decrease**
- **Sweden: 70% Increase, 21% no change, 5% decrease**

- Another survey[322] explored the interest in sustainable finance solutions among European investors:
  - 55% of Belgian investors are interested in sustainable finance solutions, 18% are not interested, and 27% are indifferent.
  - 55% of Spanish investors are interested in sustainable finance solutions, 16% are not interested, and 29% are indifferent.
  - 55% of Italian investors are interested in sustainable finance solutions, 18% are not interested, and 26% are indifferent.
  - 49% of Dutch investors are interested in sustainable finance solutions, 23% are not interested, and 29% are indifferent.
  - 65% of Polish investors are interested in sustainable finance solutions, 14% are not interested, and 22% are indifferent.
  - 65% of Swedish investors are interested in sustainable finance solutions, 10% are not interested, and 25% are indifferent.

2. Drivers of the demand

Preliminary conclusion: while financial returns remain the bigger driver for investing, retail investors do not necessarily associate sustainable investing with lower return/compromise on return. Main drivers for investing include financial performance, risk management, supporting green objectives and creating a positive impact. Investors' willingness-to-pay for sustainable investments depends on the impact of such investments.[323]

Global/EU statistics:

- Globally, investors believe strong ESG practices can lead to higher returns. Financial returns are the main priority for global individual investors, and 70% believe strong ESG practices deliver them[324].
- When asked about reasons for interest in sustainable investing, European investors **(UK, France, Germany, Switzerland),** mentioned, in order of preferences: (1) financial performance of sustainable investment (57%), (2) inflation (56%), (3) market dynamics and broader economic performance (54%) and new climate science findings (53%)[325].

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[322] **Survey from 2degrees investing** (survey question A7r2) "I am Interested in sustainable finance solutions" Possible answers: Strongly agree, agree, neither agree nor disagree, disagree, strongly disagree.

[323] Do Investors Care about Impact? | The Review of Financial Studies | Oxford Academic

[324] "Sustainable Signals, understanding individual investors' interests and priorities" Morgan Stanley institute for sustainable investing and wealth management (2024) – responses from global sample (US, Europe – France, Germany, UK, Switzerland - and Japan)

[325] "Sustainable Signals, understanding individual investors' interests and priorities" Morgan Stanley institute for sustainable investing and wealth management (2024) – responses from European sample. How interested are you in sustainable investing?"

National statistics:

- When asked why to consider sustainability in the portfolio, Belgian investors highlighted different drivers: 37% cited personal values as their primary motivation, 30% were driven by the desire to create a positive impact, 29% focused on risk management, and 22% would not include sustainability[326].
- When Austrian investors were asked about their reasons for investing in sustainable investment funds, 31% cited potential profit as their primary motivation, 36% pointed to the positive social, societal, or environmental impact, and 33% expressed that both factors were equally important.
- When Belgian investors were asked about their reasons for investing in sustainable investment funds, 33% cited potential profit as their primary motivation, 31% pointed to the positive social, societal, or environmental impact, and 36% expressed that both factors were equally important.
- When Danish investors were asked about their reasons for investing in sustainable investment funds, 34% cited potential profit as their primary motivation, 33% pointed to the positive social, societal, or environmental impact, and 33% expressed that both factors were equally important.
- When French investors were asked about their reasons for investing in sustainable investment funds, 29% cited potential profit as their primary motivation, 40% pointed to the positive social, societal, or environmental impact, and 31% expressed that both factors were equally important.
- When German investors were asked about their reasons for investing in sustainable investment funds, 31% cited potential profit as their primary motivation, 32% pointed to the positive social, societal, or environmental impact, and 38% expressed that both factors were equally important.
- When Italian investors were asked about their reasons for investing in sustainable investment funds, 27% cited potential profit as their primary motivation, 38% pointed to the positive social, societal, or environmental impact, and 35% expressed that both factors were equally important.
- When Dutch investors were asked about their reasons for investing in sustainable investment funds, 33% cited potential profit as their primary motivation, 33% pointed to the positive social, societal, or environmental impact, and 33% expressed that both factors were equally important.
- When Polish investors were asked about their reasons for investing in sustainable investment funds, 31% cited potential profit as their primary motivation, 35% pointed to the positive social, societal, or environmental impact, and 34% expressed that both factors were equally important.
- When Portuguese investors were asked about their reasons for investing in sustainable investment funds, 32% cited potential profit as their primary motivation, 38% pointed to the positive social, societal, or environmental impact, and 31% expressed that both factors were equally important.

[326] "Towards sustainable investing: how retail investors can create an impact", Deloitte Belgium, 2024. Sample only includes Belgian invests. Question: "Why consider sustainability in your portfolio?" Possible answers: personal values, positive impact, risk management, would not include sustainability.

- When Spanish investors were asked about their reasons for investing in sustainable investment funds, 31% cited potential profit as their primary motivation, 35% pointed to the positive social, societal, or environmental impact, and 34% expressed that both factors were equally important.
- When Swedish investors were asked about their reasons for investing in sustainable investment funds, 36% cited potential profit as their primary motivation, 32% pointed to the positive social, societal, or environmental impact, and 32% expressed that both factors were equally important.[327]
- Even among those who do expect a reduction in financial returns from sustainable investments (30%), the majority (69%) wants to put their pension money to promote sustainability.[328]

3. Specific sustainability objectives/themes

Preliminary conclusion: Data confirms an interest for both environmental and social issues. Commitment to transition efforts seems to be important for retail investors. Overall, data shows a wide range of sustainability-related interests amongst retail investors. Data shows support for both exclusion-based criteria and positive contribution based criteria.

Global/EU statistics:

- When asked about specific themes, global investors favor environmental solutions for current and planned investments, while interest in social themes is tempered by uncertainty on how to invest. Water solutions, healthcare and climate action are top themes for investors, but there's broad interest across many environmental and social areas[329].
- 82% of global investors believe companies should address environmental issues, 77% of them believe companies should address social issues.[330]
- The top themes for sustainable investing among surveyed European investors **(UK, France, Germany, Switzerland)** are: Climate action (17%), Healthcare (12%), Water solutions (11%), Circular economy (9%), Nature & biodiversity (9%), Education (8%), Financial Inclusion (7%), UN SDGs (5%), Multicultural Diversity (5%), Just Transition (5%), Gender Diversity (4%), Community Development (4%), Faith-Based Values (3%).[331]
- Another survey on the popularity of sustainable topics among European investors (Denmark, Estonia, Germany, Greece, Ireland, and Romania) shows that most

[327] Schroders_Report_Sustainable-Investing_Final., Schroders (2019), responses from 22,000 participants from 30 countries (EU + others). Question: "If you invest in, or were to invest in sustainable investment funds, to what degree would this be for the potential investment return/profit versus the positive social, societal or environmental impact that the fund could have?".

[328] Get Real! Individuals Prefer More Sustainable Investments by Rob Bauer, Tobias Ruof, Paul Smeets, Bauer et al. Real-life experiment with dutch pension fund. N=1699

[329] "Sustainable Signals, understanding individual investors' interests and priorities" Morgan Stanley institute for sustainable investing and wealth management (2024) – responses from global sample (US, Europe – France, Germany, UK, Switzerland - and Japan)

[330] "Sustainable Signals, understanding individual investors' interests and priorities" Morgan Stanley institute for sustainable investing and wealth management (2024) – responses from global sample (US, Europe – France, Germany, UK, Switzerland - and Japan)

[331] "Sustainable Signals, understanding individual investors' interests and priorities" Morgan Stanley institute for sustainable investing and wealth management (2024) – responses from European sample..

popular remain: Clean water (64%), Health and safety (62%), Education (53%), Climate change (51%), Renewable energy and energy efficiency (50%), Human rights (45%).[332]

- European respondents (UK, France, Germany, Switzerland) are the most likely to consider climate change when investing in traditional energy companies, at 77% (vs 71% for the US and 69% for Japan).[333]
- Global retail investors have certain preferences regarding ESG investing strategy: 47% of them prefer exclusionary screening or values-based exclusions, 37% best-in-class selection, while 16% prefers impact investing.[334]
- 72% of European value-oriented retail investors are found to prefer both exclusion (negative) and contribution (positive) screening criteria for investments, 20% were only interested in exclusion and a minority of 9% were only interested in positive screening. Human rights and other governance violations were found as the most important exclusion-based criteria, with various social and environmental metrics as the preferred positive criteria[335].
- EU investors have been asked "Which of these phrases describe what you think a "sustainable investment fund" is?"
    a. Fund that invests in companies that are likely to be more profitable because they are proactive in preparing for environmental and social changes
    b. Fund that invests in companies that are best-in-class when it comes to environmental or social issues or how the company is managed
    c. Fund that specifically avoids controversial companies
    d. All three descriptors
    e. Don't know [336]

On average, EU investors predominantly responded:

- a) Fund that invests in companies that are likely to be more profitable because they are proactive in preparing for environmental and social changes. **(47%)**
- b) Fund that invests in companies that are best-in-class when it comes to environmental or social issues or how the company is managed. **(42%)**

National averages:

- **Austria: a) 44%, b) 56%, c) 18%, d) 18%, e) 7%**
- **Belgium: a) 48%, b) 47%, c) 23%, d) 23%, e) 7%**
- **Denmark: a) 43%, b) 48%, c) 28%, d) 28%, e) 10%**
- **France: a) 51%, b) 46%, c) 24%, d) 24%, e) 7%**
- **Germany: a) 49%, b) 50%, c) 19%, d) 19%, e) 9%**

[332] What do your clients actually want?, 2DII (2022), survey run in 6 European countries (Denmark, Estonia, Germany, Greece, Ireland and Romania). Participants were able to choose maximum of 6 among 30 sustainability topics.
[333] Sustainable Signals, understanding individual investors' interests and priorities" Morgan Stanley institute for sustainable investing and wealth management (2024) – responses from European sample.
[334] The Investing Enlightenment, State Street (2018) – responses from global sample (Europe, Asia, Americas, Australia)
[335] SFO_Mind-the-Gap-Why-EU-retail-investors-dont-get-what-they-want_2025.pdf, Sustainable Finance Observatory (2025) – based on surveys, interviews, mystery shopping visits etc. in 14 Member States
[336] Schroders_Report_Sustainable-Investing_Final., Schroders (2019), responses from 22,000 participants from 30 countries (EU + others). The percentages extracted refer only to European (EU, UK, Switzerland, Russia) respondents.

- **Italy: a) 41%, b) 50%, c) 17%, d) 17%, e) 10%**
- **Netherlands: a) 47%, b) 50%, c) 24%, d) 24%, e) 5%**
- **Poland: a) 41%, b) 41%, c) 30%, d) 30%, e) 8%**
- **Portugal: a) 56%, b) 37%, c) 15%, d) 15%, e) 9%**
- **Spain: a) 46%, b) 43%, c) 13%, d) 13%, e) 10%**
- **Sweden: a) 49%, b) 45%, c) 34%, d) 34%, e) 10%**

- Participants from 12 EU countries were asked a series of questions regarding their financial or sustainability objectives. Three overarching objectives were considered: impact, values, and return. Average results for 12 EU countries show the following: 6% pure impact, 9% pure values, 16% pure return, 4% mix of impact and return, 16% mix of values and return, 6% mix of values and impact, 34% mix of all three, 11% no clear profile.[337]

- Strong interest for transition finance:
  - 80% of global investors stated that a company's reporting on sustainability practices, carbon footprint and commitments to reduce greenhouse gas emissions over time are important when making investment decisions.[338]
  - Commitment to transition is important for global investors when consider investing in energy companies[339]:
    - 25% would not invest in traditional energy companies (e.g. coal, oil and gas) due to climate concerns.
    - 52% would only invest in traditional energy companies with robust plans to reduce their greenhouse gas emissions and address climate change.
    - 23% would not consider climate change when making investments in traditional energy companies.
    - On average, 70% of EU retail investors would either like to, or already own financial products that finance the energy transition.[340]
- BEUC[341] presents the following findings on retail investors'
  - Description of the different motives for sustainability-conscious retail investors: value coherence (excluding from your portfolio what

[337] Moving the blockers of retail sustainable finance, 2DII, 2023.

[338] Sustainable Signals, understanding individual investors' interests and priorities" Morgan Stanley institute for sustainable investing and wealth management (2024) – responses from European sample. Question: "when thinking about new investments, how important is a company's reporting on sustainability practices, carbon footprint, and commitments to reduce greenhouse gas emissions over time?" 19% responded 'very important and a top priority'; 24% responded 'very important but not a top priority', 27% responded 'somewhat important', 13% responded 'not too important', 6% responded 'not at all important'.

[339] Sustainable Signals, understanding individual investors' interests and priorities" Morgan Stanley institute for sustainable investing and wealth management (2024) – responses from European sample. Question: "Choose one of the three statements". Possible response: 'I would not invest in traditional energy companies (e.g., coal, oil and gas) due to climate concerns'; 'I would only invest in traditional energy companies with robust plans to reduce their greenhouse gas emissions and address climate change'; 'I do not consider climate change when I make investments in traditional energy companies.'

[340] Moving the blockers of retail sustainable finance, 2DII, 2023, responses from 6000 participants from 6 EU countries.

[341] A consumer agenda for sustainable retail finance and banking, BEUC (2024), section 2.1.1. what do consumers want from sustainable investment products?

contradicts your value, i.e. avoiding harm), impact investing, transition, and financial return.
    - "However, what can be said for certain is that retail investors who shop for sustainable investment products do not expect to be sold 'best in class' products or other investment approaches that pick companies whose sustainability performance is merely better, or less bad, compared to others in the same sector. No retail investor will see relative sustainability as genuine sustainability."
- 2Dii presents what respondents believe should constitute an impact fund to avoid misleading investors:
    - 42% believe it should be a fund that intends to have an impact on the environment or the society AND deploys impactful actions in accordance AND can provide evidence supporting that it actually achieved a positive impact in the past.
    - 25% believe it should be a fund that intends to have an impact on the environment or the society AND deploys impactful actions in accordance.
    - 18% don't know.
    - 15% believe it should be a fund that intends to have an impact on the environment or the society.
- Natixis[342] presents in what specific companies are advised and non-advised retail investors prone to invest.
    - Investing in companies that have a positive social impact.
        - Advised: 72%
        - Non-advised: 64%
    - Investing in companies with good environmental records.
        - Advised: 73%
        - Non-advised 67%
    - Investing in companies that are ethically run.
        - Advised: 80%
        - Non-advised: 74%
    - Investing in companies that reflect my personal values.
        - Advised: 77%
        - Non-advised: 72%
    - Knowing my investment is doing social good.
        - Advised: 73%
        - Non-advised: 67%
    - Funding advancements in areas such as healthcare and education.
        - Advised: 74%
        - Non-advised: 64%
- Value-oriented investors are highly supportive of companies engaged in sustainable economic activities, with 79.6% expressing willingness to invest in such businesses. Additionally, 74.7% favor excluding certain corporate activities that may not align with their values.[343]

[342] mind-shift-getting-past-the-screens-of-responsible-investing, Natixis (2017), Natixis Investment Managers, Global Survey of Individual Investor. Responses from 7,100 investors from 22 countries (EU + others).
[343] MyFairMoney - Questionnaire (2024), Global Survey of individual investors. Sample size = 550

National statistics:

- French investors[344] who had indicated that their primary objectives when investing was to contribute to or act for sustainable development (representing 7% of respondents)[345] have ranked their specific sustainability-related priority objective:
    - 46% responded 'to finance the energy transition or the preservation of biodiversity'.
    - 30% responded 'to give preference to transparent companies.
    - 28% responded 'to invest in companies that care about their employees, diversity or equal opportunities'.
- New evidence of German investors show they would expect an average of 49.5% of sustainable investment depending on the category of the product and would expect exclusions to cover notably:
    - Human rights violations (63.5%)
    - Expansion of coal-fired power generation) (54.4%)
    - Controversial weapons (58%)
    - While the figures are lower for e.g. tobacco (28%) and natural gas (27%)[346]
- Prior survey of German[347] retail investors outlines the following as reasons to invest sustainably:
    - 38% Contribution to environmental and climate protection.
    - 28% personal values
    - 13% sustainale investments are better than non-sustainable.
    - 3% social status
    - 12% fear of the negative effects of non-sustainable investments.
    - 30% leaving a better world for children and grandchildren.

4. Current challenges/barriers to sustainable investing in the EU

Preliminary conclusion: top challenges (factors potentially preventing retail investors from investing sustainably) include fear of greenwashing risks and the lack of a clear overview of the (climate-aligned) investment opportunities available. The complexity and length of the SFDR reporting templates put off investors.

Global/EU statistics:

- Globally, more than 60% of investors are concerned about greenwashing risks and the lack of ESG transparency[348].

[344] The French and responsible investments, July 2023, AMF. Only French sample.

[345] Main objectives chosen by respondents were: 'to have precautionary savings for unforeseen events' (61%); 'build up capital' (46%) and 'prepare for retirement' (31%)

[346] Consumer Testing for SFDR 2.0 (2025), BaFin Centre Sustainable Finance (ZSF), sample of 1000 German investors. BaFin - Current topics - Survey on sustainable financial products: Consumers expect clear rules

[347] Eckert et al. (2022) responses from German sample of 3699 investors. Question was "Why would you invest in a sustainable investment". Percentages show the share of 'yes' answers.

- Only 20% of European investors (EU only) understand 'the step they can take to invest and how to invest in a way that aligns with their values'. 48% answered to some extent, 13% no, and 16% unsure[349].
- Only 5% of European investors (EU only) believe that they 'have a clear overview of the climate-aligned investment opportunities that are available in their country'. 24% said to some extent, 53% answered no and 19% said they were unsure[350].
- Only 12% of European investors (EU only) said that they know 'how to identify opportunities and mitigate risks before making an investment decision'. 44% said to some extent, 28% said no and 18% were unsure.[351]
- Only 6% of European investors (EU only) said they can 'understand how to protect themselves from greenwashing and what to do if they see it occurring'. 31% said to some extent, 43% said no and 21% were unsure.[352]
- 46% of global retail investors raised the issue of lack of ESG performance data reported by both the companies and other sources as a barrier to ESG integration. 39% consider lack of standards for measuring ESG performance as a barrier. 29% are concerned about under-performance of ESG investments, while 21% about costs associated with ESG integration.[353]

National statistics (FR, IT, NL, PL):

- Consumer studies conducted on behalf of the European Supervisory Authorities in four EU countries (FR, IT, NL, PL) in spring 2023 confirmed that the current SFDR disclosures templates present a lot of information to digest and that much of it is too hard to understand or interpret correctly.[354]
    - AMF findings[355]: documents not appearing to be aimed at retail investors
        - "Investors felt put off by the form of the document, its compact presentation, its length and the lack of a summary".
        - "Complexity, due to the use of technical terms and a lack of simple explanations", "full of jargon", "concepts are hard to identify".
    - Università Cattolica del Sacro Cuore findings[356]: the differences between 'sustainable investments' and the 'EU Taxonomy' is a source of confusion.

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348 "Sustainable Signals, understanding individual investors' interests and priorities" Morgan Stanley institute for sustainable investing and wealth management (2024) – responses from global sample (US, Europe – France, Germany, UK, Switzerland - and Japan).
349 Invest for Better Climate EU, Better Finance, 2024
350 Invest for Better Climate EU, Better Finance, 2024
351 Invest for Better Climate EU, Better Finance, 2024
352 Invest for Better Climate EU, Better Finance, 2024
353 The Investing Enlightenment, State Street (2018) – responses from global sample (Europe, Asia, Americas, Australia). Respondents were asked about the barriers to ESG integration. They could select more than one option.
354 Final Report on draft RTS on the review of PAI and financial product disclosures in the SFDR Delegated Regulation: consumer testing in Italy, Poland, Netherlands, AMF
355 AMF consumer testing on financial product disclosures in pre-contractual disclosures under the SFDR, June 2023. Study lasted 5 days and targeted 27 savers
356 Consumer testing on financial product disclosures under the SFDR, Università Cattolica del Sacro Cuore, July 2023/. Survey was delivered to three classes of graduate students attending the university.

- AFM findings[357]: (1) the understanding of the document is low; (2) the aim and context of the document are not clear, most readers were confused about its purpose; (3) the texts and concepts are difficult to understand, the language level is too high, especially regarding the concept of Taxonomy and sustainable investment; (4) the design (both textual and visual) of the document is not attractive.

- AMF study highlighted that the understanding of 'European Taxonomy' was very low: 4% knew exactly that it means; 10% knew the main outlines, 19% knew it just by name; and 67% declared not knowing it at all.[358]
- AMF study also shows a pick in mistrust in responsible investment. Respondents were faced with different statement about responsible investments. The statement that was the most of them agreed with was 'responsible investments are never totally responsible' with 17% agree totally, 41% agree, 15% disagree, 4% totally disagree, and 23% don't know. Meaning than 53% French investors agree that responsible investment are never totally responsible[359].
- Moderate level of trust in the labels in the French market:[360]
  - Label ISR (FR): 64% completely or moderately trust the label validates the responsible orientation of a savings or investment product.[361]
  - Greenfin label (FR): 72% completely or moderately trust the label validates the responsible orientation of a savings or investment product.[362]
  - When asked 'why don't you fully trust these labels', the most picked answers is: 'existence of several labels, which makes them confusing' (33%).[363]

SOURCES

- **Morgan Stanley institute for sustainable investing and wealth management**, "Sustainable Signals, understanding individual investors' interests and priorities" **(2024).** Sample of Respondents: US (1002 individual investors), Europe (1025, including 289 in the UK, 273 in France, 285 from Germany and 178 from Switzerland) and Japan (793).
- **Deloitte**, "Towards Sustainable Investing: How retail investors can create an impact" **(2024)**. Sample of 1000 Belgian investors
- **2 degrees investing,** Summary table of surveys. Sample of 6105 investors from Belgium, Spain, Italy, Netherlands, Poland, and Sweden

[357] Consumer testing on financial product disclosures in pre-contractual disclosures under the Sustainable Finance Disclosure Regulation, AFM, June 2023. Study used online tools on collect qualitative insight on the template. The sample was a representative group of 239 Dutch people ages 18 or above.
[358] The French and responsible investments, July 2023, AMF. A survey of a representative sample of 2,001 individuals of the national population aged 18 and over. The sample was interviewed using a questionnaire administered online (CAWI), based on a panel and a questionnaire lasting an average of 20 minutes.
[359] The French and responsible investments, July 2023, AMF. Only French sample.
[360] The French and responsible investments, July 2023, AMF. Only French sample.
[361] 20% don't know, 16% not at all
[362] 12% don't know and 16% not at all
[363] Other top answers: "they are not very transparent" (31%); "don't trust labels in general" (26%) and "selection criteria are not clear" (23%).

- **2 degrees investing,** “What do your clients actually want". Sample of investors from Denmark, Estonia, Germany, Greece, Ireland, and Romania. Approximately 1000 people per country
- **2 degrees investing,** “Moving the blockers of retail sustainable finance in Belgium". Sample of 12000 investors from Denmark, Estonia, Germany, Greece, Ireland, Romania, Belgium, Spain, Italy, Netherlands, Poland, and Sweden. Approximately 1000 people per country
- **AMF and opinion way**, “The French and responsible investment” (2024). Sample of 2001 French individual above 18 years old. The sample was interviewed using a questionnaire administered online (CAWI) based on a panel and a questionnaire lasting an average of 20min.
- **AMF,** consumer testing on financial product disclosures in pre-contractual disclosures under the SFDR, (2023). Study targeted 27 savers and lasted 5 days.
- **Better Finance,** “Invest for Better Climate EU: assessing retail investor sustainability knowledge and preferences EU” **(2024)**. Sample of 854 participants from France, Germany, Poland and Spain
- **Università Cattolica del Sacro Cuore**, consumer testing on financial product disclosures in pre-contractual disclosures under the SFDR, (2023). Survey was delivered to three classes of graduate students attending this university.
- **AFM**, consumer testing on financial product disclosures in pre-contractual disclosures under the SFDR, (2023). The sample was a representative group of 239 Dutch people aged 18 or above.
- **BEUC**, “A consumer agenda for sustainable retail finance and banking” (2024). Sample unknown.
- **Eckert et al.** (2022) New evidence on German retail investors: The desire to make an impact. Responses from German sample of 3699 investors
- **State Street** (2018), The Investing Enlightenment, responses from global sample (Europe, Asia, Americas, Australia).
- **Natixis** (2017), Natixis Investment Managers, Global Survey of Individual Investor. Responses from 7,100 investors from 22 countries.
- **Schroders** (2017), Global Investor Study Global Perspectives on Sustainable investing. 22,000 respondents from 33 countries
- Sustainable Finance Observatory (2025), Mind the Gap Why EU retail investors don’t get what they want. Based on surveys, interviews, mystery shopping visits etc. in 14 Member States
- BaFIN Centre for Sustainable Finance (ZSF) (2025), Consumer Testing for SFDR 2.0. Online survey in Germany of 1,000 people

ANNEX 11: EVALUATION

1. Introduction

1.1. Context

Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability- related disclosures in the financial services sector (or the 'Sustainable Finance Disclosures Regulation' (SFDR)) has been in application since March 2021. It is part of a broader package of sustainability disclosure rules, tools and standards for non-financial and financial companies adopted pursuant to the Commission's 2018 Action Plan on Financing Sustainable Growth[364], recalled and reinforced within the objectives of the European Green Deal[365] and the Commission's 2021 Strategy for Financing the Transition to a Sustainable Economy[366].

The SFDR level 1 Regulation is complemented by a level 2 Delegated Regulation[367] which lays down detailed disclosure rules for how financial market participants, such as asset managers and pension funds, and financial advisers should disclose sustainability information about their investment activities toward investors, in order to help the latter make informed choices. The Delegated Regulation specifies notably the details of the information to be disclosed to investors in pre-contractual documents, on websites and in periodic reports regarding key parameters and indicators set out in the level 1 Regulation both for financial market participants as entities as well as for the financial products which they make available. This includes notably regarding how products may be considered to promote environmental or social characteristics under Article 8, to pursue sustainable investment as an objective under Article 9, and to consider principal adverse impacts to sustainability, including adherence to the principle of 'do no significant harm'.

While the level 1 Regulation is applicable since March 2021, the detailed level 2 Delegated Regulation applies only since early 2023. Overall, the rules both across the level 1 and the level 2 are closely linked with other parts of the EU sustainable finance framework, notably the Taxonomy Regulation[368] and the Corporate Sustainability Reporting Directive[369], including their respective implementing measures which have entered into application in various steps between 2022 and 2025[370].

The comprehensive assessment of the SFDR was announced in December 2022[371] as per Article 19 of the regulation to assess potential shortcomings with the framework, focusing on legal certainty, the usability of the regulation and its ability to play its part in

[364] COM(2018) 97 final
[365] COM(2019) 640 final
[366] COM(2021) 390 final
[367] Commission Delegated Regulation (EU) 2022/1288
[368] Regulation (EU) 2020/852
[369] Directive (EU) 2022/2464
[370] And at present subject to amendment pursuant to the February 2025 Commission proposals to simplify sustainability reporting
[371] finance-2023-sfdr-implementation - European Commission

tackling greenwashing. The assessment was carried forward notably via two public consultations in autumn 2023[372] as well as the other steps outlined in Annex 1.

The assessment has been predicated on gathering feedback on the functioning of the framework and assessing any shortcomings with regard to how well it is achieving its ultimate objectives. Notably this concerns how the rules are working in terms of helping to attract private funding to facilitate the transition of the European economy towards greater sustainability by setting out a common framework for disclosures by financial market participants regarding their investment activities and the sustainability-features of various financial products and empowering investors to better understand and compare the products on offer.

This annex summarises the assessment of the extent to which the existing SFDR rules have met their main objectives and in particular whether they have worked in a way that is efficient, effective, coherent, relevant and have provided EU added value. The assessment has largely been conducted prior to the impact assessment work, and its results have been incorporated in the problem definition of the impact assessment.

1.2. Scope of the evaluation

This annex does not constitute a full evaluation of the SFDR. The detailed rules in the Delegated Regulation date from 2023, which together with their interplay with the detailed concurrent implementing measures under the Taxonomy and CSRD noted above (dating from 2022 to 2025), make a full evaluation of their effect in accordance with better regulation principles premature. As such, this annex provides an assessment of the functioning of the SFDR, to the extent possible in accordance with the five evaluation criteria set out in Better regulation guidelines, and informing also the problem definition in section 2 of this impact assessment.

1.3. Background to the initiative

The Commission proposal for the SFDR was adopted in May 2018[373]. It set out to overcome "a lack of transparency on how institutional investors, asset managers and financial advisors consider sustainability risks in their investment decision-making or advisory processes (as a result of which) their clients do not get the full information they need to inform their investment decisions or recommendations." Together with the other measures in the EU sustainable finance framework, the SFDR was part of the steps to help reorient capital towards sustainable investments and mainstream sustainability into financial risk management[374].

The expected impacts of the SFDR were that end-investors would be provided with more clear and coherent information, with lower information asymmetries and search costs, on how financial market participants and financial advisors integrate sustainability risks in their investment decision-making or advisory processes. This was also foreseen to help incentivise innovation, competition and ultimately market efficiency due to a better integration of ESG risks and consideration of higher sustainability standards in the decision-making processes of investors and financial market participants and advisers alike. It was anticipated that additional costs under the framework for financial market

[372] Sustainability-related disclosure in the financial services sector - European Commission
[373] COM(2018) 354 final
[374] COM(2018) 97 final

participants and financial advisers would largely be incurred as part of existing and emerging organisational and operating procedures, which were already tending towards a better consideration of sustainability risks. Costs were also anticipated to be offset by gains from higher volumes of client business interested in sustainable investments. While the final SFDR adopted by co-legislators and published in December 2019 amended the Commission proposal in several respects and key details[375], the fundamental objectives of the framework remained the same.

1.4. State of play

As noted above, the SFDR Level 1 began applying in March 2021 but the detailed rules in the Level 2 regulation only began applying in early 2023. Together with subsequent Level 3 guidance from the Commission and ESAs, this meant that the early implementation of the SFDR entailed periodic adjustments for FMPs notably regarding the appropriate treatment and disclosures of certain products (outlined in sections 1 and 2 of the impact assessment and further in section 3.1.2 below).

Nonetheless, the feedback on the SFDR shows continued widespread support for both its objectives and the added value of a common sustainability disclosure framework at EU level. Some stakeholders consider that it has been effective in increasing transparency and giving investors access to detailed ESG information.

Nevertheless, a large majority of stakeholders note that there are limitations in the SFDR which have prevented the objectives of the framework from being fully achieved. These limitations include a lack of legal clarity on key concepts, the limited relevance of certain disclosure requirements, overlaps and inconsistencies with other parts of the sustainable finance framework, and challenges linked to data availability.

Overall, these limitations have led to various implementation challenges and undue operational costs for financial market participants. They have also led to a lack of clarity and comparability regarding the sustainability of different financial products offered to investors in the EU. This in turn has given rise to both a risk of greenwashing and the unwarranted exclusion of some sectors because of how some rules are applied in practice. This has made the rules less effective in helping to mobilise private investment into the transition toward sustainable business practices and the EU's strategic objectives.

2. Methodology

This evaluation annex summarises the input and analysis which have gone into informing the assessment of the functioning of the SFDR recapped above, to the extent possible through the lens of the five evaluation criteria set out in Better regulation guidelines. It is based on the feedback to the consultations and outreach activities outlined in Annexes 1 and 2, as well as other publicly available studies and inputs received by Commission services. An analysis of the costs arising from the current regime is presented separately in Annex 3.

[375] E.g. split into disclosures as per Articles 8 and 9, notion of 'principal adverse impacts' and addition of entity-level disclosures in this regard, changed definition of 'sustainable investment' etc

3. Evaluation questions

The first part (section 3.1) below – looking at effectiveness, efficiency and coherence – explores the extent to which the SFDR has been successful. The second and third explore its continued relevance (section 3.2) and added value (section 3.3).

3.1. To what degree has the SFDR been successful, in terms of effectiveness, efficiency and coherence?

3.1.1. Effectiveness and efficiency

Has the SFDR been overall effective in delivering on its objectives and if not, what factors have rendered it less effective than intended?

Has the SFDR been cost-efficient? Is there scope to increase efficiency e.g. via further simplification or making the rules more proportionate?

The feedback to the consultations shows continued support for the objectives of the SFDR but mixed views on how the implementation of the regulation has delivered against its specific objectives[376]. A majority considered that the SFDR has not effectively strengthened protection for end-investors or made it easier for them to compare financial products with sustainability claims nor that it has successfully directed capital towards investments deemed sustainable, including transitional investments. In detail, in terms of the **effectiveness and efficiency** of the SFDR in delivering on its objectives, the entity level disclosure requirements for FMPs and financial advisers (jointly referred to as 'FMPs' below) and product level disclosure requirements for financial products in scope[377] on how they consider sustainability risks, are widely perceived as **complex, unduly long and lacking in clarity**. The requirements are also said to require a level of **ESG data which is not fully and effectively available**, with **inadequate guidance on how to treat resulting ESG data gaps**. The disclosure regime is also being used by the market as a **de facto labelling system despite the lack of common criteria** that could underpin such labels and be fit for this purpose.

Together, these pose difficulties both for FMPs in preparing the required disclosures and navigating the uncertainty surrounding key sustainability-related obligations and concepts, as well as for investors and distributors in understanding and comparing ESG claims made as part of financial products. While not fully cancelling out the ability of the SFDR to deliver on some of its objectives, **these challenges hamper its overall effectiveness and efficiency** in ensuring a more integrated single market for credible ESG-linked products helping to mobilise private investment into the transition toward sustainability and for the EU's other strategic objectives.

- **The SFDR is considered to rely on ambiguous terminologies and un-defined concepts which have led to unclear requirements.**

82% (247 out of 301) of respondents to the public consultations flagged that the legal requirements and concepts in the SFDR, especially the ones linked to the **definition of**

[376] The relevant specific objectives in the original impact assessment (SWD (2018)265 final) were notably to "ensure clarity and a coherent approach across sectors and Member States as regards the integration of ESG factors by relevant entities in their investment/advisory process" and "increase transparency towards end-investors by improving ESG-related disclosure requirements".
[377] The scope of SFDR includes funds, insurance and pension products.

'sustainable investment', are not sufficiently clear[378]. **The sustainable investment definition leaves a lot of room for interpretation**, especially when it comes to the 'do no significant harm' (DNSH) concept[379]. The regulation has not specified what the requirements linked to the 'consideration' of 'principal adverse impacts' (PAIs) means, which is left to the discretion of asset managers (e.g. setting specific thresholds for each PAI, engaging with investee companies to reduce PAIs, screening the companies based on the best performers against each PAI, etc). In addition, 77% of respondents to the public consultation find it unclear when FMPs should consider that the PAIs are to be considered as material in the context of the product disclosures for DNSH[380]. The concept of 'good governance' is also noted not to be sufficiently defined, leaving room for interpreting the related requirements (e.g. exclusion policies and standards, setting due diligence processes and policies for the detection and remediation of potential violations, etc.). See section 3 of Annex 2 for further details and breakdowns per types of respondents and stakeholders.

Another aspect left to the discretion of managers relates to the way **sustainable companies are counted in portfolios**. Firms are free to choose whether they count the entirety of a sustainable company (beyond a certain level of revenue derived from sustainable activities), or whether they count only the proportion of revenue attributed to those activities[381]. Box 9 illustrates this point how FMPs are responsible for conducting their individual assessments for each investment and disclosing the underlying assumptions and methodologies they rely on. Depending on the method, considerable differences can be noted in the share of sustainable investment disclosed for a product, i.e. with the right-hand approach signalling a far higher proportion, yet based on a similar investment in an equivalent company.

Box 9: Explanation of the two main approaches to calculating 'sustainable investment proportion', Morningstar[382]

	Revenue-weighted approach	Pass-Fail approach
% of Sustainable Investments (After the DNH test is applied)	Only the % of revenue generated from sustainable activities	100% of companies that generate a minimum level of revenue from sustainable activities
Example	If 20% of a company's revenue contribute to the UN SDGs and the company is not involved in any business activities deemed significantly harmful, then the 20% of the investment in the company is considered	If 20% of a company's revenue contribute to the UN SDGs and the company's remaining business activities are not deemed significantly harmful, then an investment in the whole company is considered a sustainable one.
% of Sustainable Investment typically reported	20-40%	60-80% (and in some cases 100%)

[378] European Commission, Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024
[379] The SFDR definition of sustainable investment adopted by co-legislators changed compared to the initial Commission proposal which notably did not include the horizontal DNSH concept.
[380] European Commission, Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024
[381] Morningstar, SFDR Article 8 and Article 9 funds: Q4 2022 in review (26 January 2023) and blog Sustainable Investment calculations under MiFID II and SFDR remain perplexing for ESG investors (6 July 2022)
[382] Morningstar, SFDR Article 8 and 9 in review, Q4 2022

This contributes to the effect that the disclosures made under the SFDR **often lack comparability.** Different interpretations of the regulation have led FMPs to adopt different approaches when applying key SFDR concepts, especially the calculation of sustainable investment exposure (see **box 10**).

As a result, products with similar mandates and portfolios will report divergent exposures to sustainable investments depending on the methodology chosen. The lack of transparency regarding the approach taken and the underlying methodologies is making it impossible for end-investors to compare competing products. The discretion in reporting on PAIs also does not ensure comparability, while reporting on products' Taxonomy-alignment is limited and only gives a partial account of their overall footprint.

Box 10 below illustrates the wide range of numbers that investors are facing. It builds on an analysis conducted by Morningstar[383] looking at the differences in the reported sustainable investment exposure between 11 global large-cap ETFs that track a Paris-aligned benchmark and have similar portfolios.

Box 10: minimum % of sustainable investments for 11 funds tracking large-cap Paris-Aligned Benchmarks[384]

Fund Name	Min. % Sustainable Investments (Sep-22)	Min. % Sustainable Investments (Dec-22)
UBS MSCI World Climate Paris Aligned ETF	80%	20%
UBS MSCI ACWI Climate Paris Aligned ETF	80%	20%
BNP PARIBAS EASY - Low Carbon 300 World PAB	45%	50%
BNP Paribas Easy MSCI World SRI S-Series PAB 5% Capped	45%	45%
HSBC MSCI World Climate Paris Aligned ETF	20%	20%
Amundi Index MSCI World SRI PAB	10%	5%
iShares MSCI World Paris-Aligned Climate ETF	10%	25%
Lyxor Net Zero 2050 S&P World Climate PAB (DR) ETF	10%	5%
Amundi MSCI World Climate Paris Aligned Pab	5%	5%
Amundi MSCI World Climate Paris Aligned Pab Umweltzeichen ETF DR	5%	5%
Xtrackers World Net Zero Pathway Paris Aligned ETF	1%	10%

Other concepts which are considered to be unclear include the term 'promotion of ESG characteristics' (on which the Article 8 disclosures are based), which is very broad and lacks minimum conditions[385], and specific indicators such as the ones linked to the violations of UN Guiding Principles (UNGP) and the OECD Multinational Enterprises

[383] SFDR_Article_8_and_Article_9_Funds_Q4_2022.pdf
[384] SFDR_Article_8_and_Article_9_Funds_Q4_2022.pdf
[385] ICMA, A time for change in the sustainable fund – reflections and recommendations in a new regulatory environment, March 2025

(OECD MNEs) (where FMPs note that they lack the clarity needed on what is a relevant divestment signal)[386].

In addition, **some of the interactions between the different SFDR requirements and concepts also are considered to lack clarity**. This is particularly the case in the way the entity-level disclosures obligations and the product level disclosures should interact. 61% of FMPs[387] who responded to the public consultation flagged that the legal implications of disclosing PAI indicators at the product level on the related disclosure obligations at the entity level is not clear (i.e. whether disclosing certain indicators at product level triggers a legal obligation to disclose at the level of entity). 66% of FMPs and financial advisers[388] who responded to the public consultation also flagged that the interactions between the product level disclosure requirements under Article 7 and the ones under the Article 8 are not clear. As a result, it is not clear which obligations apply at which stage of the product disclosures[389].

- **Disclosures are seen as very lengthy and to rely on complex, unintuitive and technical terms regarding FMPs' consideration of sustainability risks at both entity and product level**

The SFDR aims to enhance transparency on ESG characteristics of financial products and ESG processes implemented by FMPs through its entity and product level disclosures. However, several limitations are seen to undermine their usefulness in fighting greenwashing and providing relevant information to end-investors.

FMPs need to gather and report a significant amount of data both at the entity level and the product levels. At the entity level, FMPs need to provide information on their integration of sustainability risks into their investment decision-making processes and remuneration policies, and on how they consider the principal adverse impacts of their investment decisions on sustainability factors (requirement for large firms, small firms follow a comply or explain approach). However, there is considerable evidence that much of this information is not really used by investors, therefore reducing its effectiveness and efficiency in achieving the objectives of the framework[390]. At the level of their investment products, FMPs need to disclose whether and how they consider sustainability risks as well as additional ESG disclosures for products promoting environmental or social characteristics (Article 8) and for products pursing a sustainable objective (Article 9). The length of the disclosure requirements was compounded by some **regulatory duplication of transparency obligations**, notably between the SFDR and the CSRD. Based on the current scope of the CSRD, some FMPs are facing duplicative entity level disclosure requirements, i.e. having to report on their principal adverse impact indicators under the SFDR and to disclose sustainability information

[386] Platform for Sustainable Finance, Briefing on EC targeted consultation regarding SFDR implementation, December 2023
[387] European Commission, Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024
[388] 66% (119 out of 180)
[389] European Supervisory Authorities, Joint ESAs opinion on the SFDR, June 2024.
[390] According to EFAMA, 'the demand for entity-level disclosures is relatively low, as (investors') primary concern lies with the details of the individual investment products themselves'. In the consultation, entity-level disclosures were considered useful by 31% of respondents.

according to the European sustainability reporting standards (ESRS) under the CSRD, which can both refer to the same information, but using different terminology[391].

The legal concepts used in investors-facing disclosures are also seen as **too complex** and not retail friendly[392]. The references to terms such as *'sustainable investment objective', 'environmental or social characteristics', 'principal adverse impacts', 'taxonomy-aligned investment',* and *'do no significant harm'* are argued by many to demand an excessively high level of familiarity with environmental and social metrics, performance data and the regulatory framework[393]. Further, the SFDR disclosures are, given their different locations (pre-contractual documents, periodic reports, websites), challenging to navigate[394].

- **Disclosures are considered to lack comparability and to fail in providing transparency on the methodology used**

As noted above, there is no uniform methodology to date for calculating the proportion of sustainable investment of a product, or for taking into consideration principal adverse impact. This allows for a variety of methodologies.

Giving FMPs a **certain level of flexibility is necessary** to allow the market to implement a wide variety of ESG strategies and innovate in their approach to sustainability. However, such flexibility must be accompanied by transparency on the approach and underlying methodology to inform end-investors.

However, current product disclosures are regarded as **failing to offer sufficient transparency on proprietary methods** or even to evaluate the effectiveness of products' performance against the sustainability characteristics or objectives established. In particular, there is little transparency on how the DNSH principle is applied. Box 8 below provides some example of product disclosures lacking sufficient transparency on methodology, impeding scrutiny and evaluation of the effectiveness of the sustainability-related approaches.

Box 11: Examples of missing data on methodology from recent study[395]

- Among 43 analysed products, 32 stated that they address the DNSH principle in their methodology. Out of these, 15 claim to assess the DNSH principle using PAIs. Only 6 products disclose that thresholds are applied to determine harm, but none disclosed specific thresholds for identifying harmful activities.
- No product provides transparent qualitative or quantitative criteria or threshold to

[391] Fit for Future Platform Opinion, October 2024.
[392] European Parliament, study requested by the ECON committee, The implementation of the Sustainability-related Financial Disclosures, July 2024.
[393] Platform for Sustainable, Briefing on EC targeted consultation regarding SFDR implementation, December 2023.
[394] Frank Bold, SFDR review : analysis of current practices and future directions for investors, December 2024. This research seeks to provide insight into how influential FMPs have implemented the SFDR requirements. It examines entity-level disclosures of 15 FMPs and product-level disclosures of three investment funds per FMPs, totalling 43 investment products. List of investors: BlackRock, JP Morgan, Credit Agricole/Amundi, Goldman Sachs, Allianz, UBS, Morgan Stanley, BNP Paribas, Deutsche Bank/DWS, Natixis, AXA, Generali, Federated Hermes, Sumitomo
[395] Frank Bold, SFDR review : analysis of current practices and future directions for investors, December 2024.

define when an activity harms environmental or social objectives or targets high-risks activities.

- Similarly, 15 products claim to address good governance (12 being products disclosing under Article 8 and 3 under Article 9), but only 5 provide detailed processes or policies, usually referencing FMPs' responsible governance principles or international standards.
- Dedicated KPIs or targets are largely absent (mainly due to lack of clarity in disclosure requirements)
- The Platform for Sustainable Finance (PSF) also highlighted in its report[396] that most product disclosures lack information about tolerance levels (the tolerated level of exposures to the mandatory principal adverse impact indicators) set by FMPs.

➢ **Lack of data compared to what is required by the SFDR and inadequate guidance on estimates**

The mismatch in some of the datapoints expected under the SFDR and those provided under other parts of the EU framework is assessed under the question on coherence below. Besides this, FMPs notably **lack granular data for investments in entities and assets that fall outside of the CSRD scope** (a challenge set to increase with the changes pursuant to the omnibus). This is particularly the case for certain types of assets (e.g. infrastructure, sovereigns, certain private assets etc) and for international investments.

Due to the lack of publicly available data from underlying investments, FMPs have to **rely on additional sources** to complement company reported data, mainly **estimates generated either in-house or by third party providers**.

The SFDR permits their use when the information needed is not readily available, but does not provide for any rules, guidance or minimum safeguards on how to generate such ESG estimates. The level 2 and 3 rules only provide for some transparency expectations. The ESAs clarified that it would be good practice for FMPs to disclose for each PAI indicator the proportion of investments for which data was obtained directly from investee companies and the proportion of investments for which data was obtained by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions[397].

However, **no further guidance has been provided so far on how such estimates should be produced and whether they should follow minimum requirements**. In addition, FMPs largely rely on non-EU third party providers for such estimates. These actors are not subject to any EU rules regarding the way they conduct their businesses, how they set their fees, on prevention on conflict of interest etc.

Findings from Sustainalytics[398] (analysing approximately 12,000 issuers) confirm the lack of available data on principal adverse impacts (**see box 12**). The analysis shows that

[396] Platform for Sustainable, Briefing on EC targeted consultation regarding SFDR implementation, December 2023
[397] ESMA30-1668416927-2548 Concept of estimates across the EU Sustainable Finance framework
[398] Sustainalytics, Filling in the Data Gaps: The Current State of Reporting on Principal Adverse Impacts Disclosures for the SFDR, February 2023.

companies in the sample were largely able to report data for over half of the mandatory PAIs but no single issuer reported data across all. (see Graph 1). Further, less than 10% of issuers have reported data on, for example, gender pay gap and emissions to water (see Graph 2).

First reporting by companies in 2025 under the (pre-Omnibus) CSRD/ESRS signals some change but largely appears to confirm the trend. An analysis by EFRAG of the first reporting in 2025 for a sample of 656 companies notes that, while topics such as climate change mitigation and social topics such as business conduct and own workforce are considered material and reported on in accordance with ESRS by over 80-90% of companies, topics such as biodiversity and water are considered material and reported on by 30-40% of companies[399].

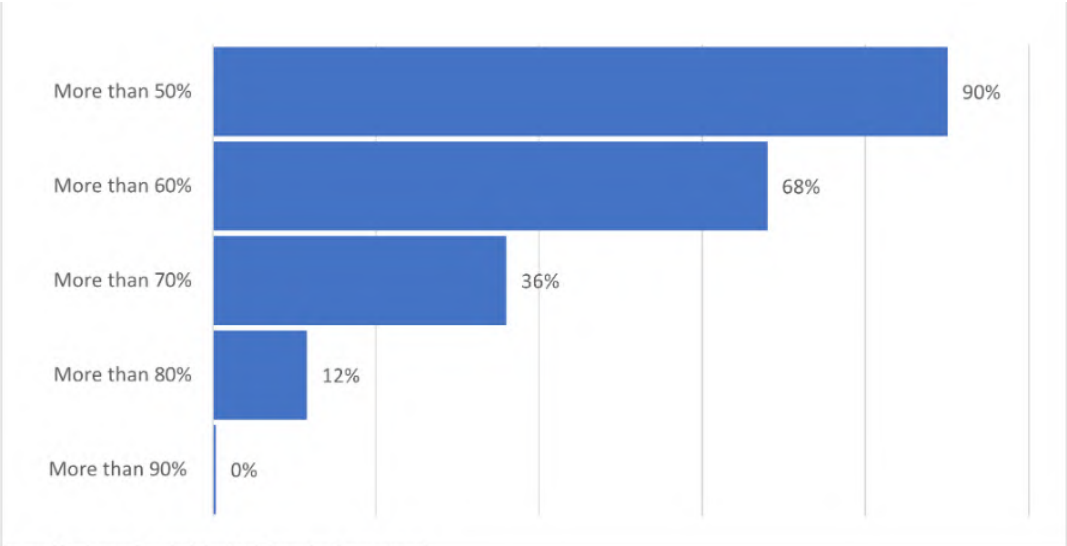
A recent Bloomberg study[400] (**see box 13)** describes the extent of the data gaps per types of entities and highlight the very low coverage for small companies. Also, while the coverage for large EU and large EU PIE[401] companies is currently estimated at 40%, this is set to be reduced in the future by the upcoming changes to the reporting landscape announced by the simplification omnibus. In addition, the lack of regulatory obligations for benchmark providers creates additional data challenges for FMPs relying on indices.

As a result, FMP struggle to collect, measure or quantify certain indicators, which are often sourced either internally or commercially from third party providers[402]. The over-reliance on the use of estimates, coupled with the lack of guidance on how to produce such estimates and the lack of regulatory framework on third-party providers of such estimates, results in additional operational, regulatory and reputational risk for managers. When asked about the cost of disclosures, 58% (167 out of 287) of total respondents answered that they do not consider it to be proportionate to the benefits generated. This figure increases to 71% (133 out of 186) among FMPs and financial advisers. FMPs and financial advisers indicated that the main components of the costs of disclosures are the costs of personnel and of external advisory services.

[399] EFRAG_State of Play 2025 Report_0.pdf
[400] Input sent bilaterally
[401] "Public-interest entity" as defined in Article 2(1) of Directive 2013/34/EU (Accounting Directive), namely listed companies, credit institutions, insurance companies and others designated as PIEs by Member States
[402] EFAMA responses to EC targeted consultation on the implementation of the SFDR, 20 December 2023

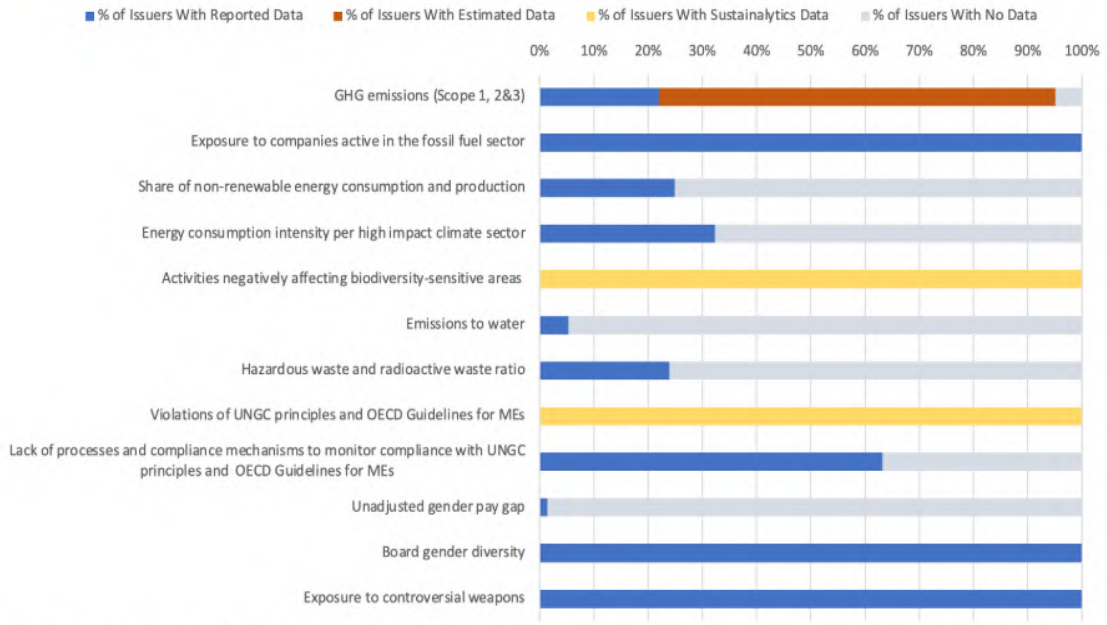
Box 12: Availabilities of PAI-related information from investee companies (Sustainalytics[403])

Graph 1 – Number of companies covering the mandatory PAI indicators



Source: Morningstar Sustainalytics. For informational purposes only.

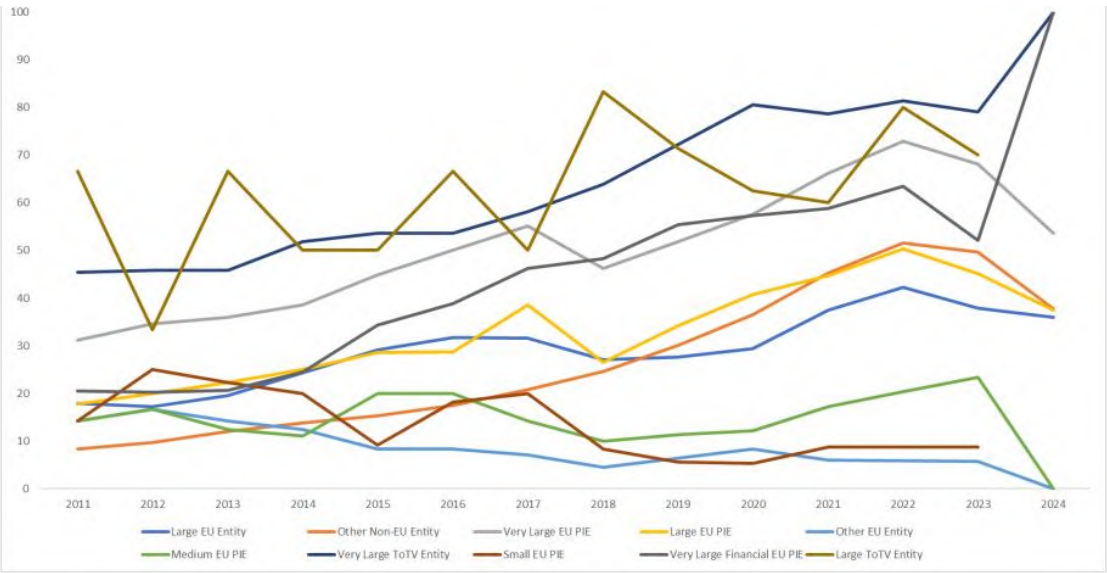
Graph 2 - Issuers' data for mandatory PAI reporting



Source: Morningstar Sustainalytics. For informational purposes only.

[403] Filling in the Data Gaps: The Current State of Reporting on Principal Adverse Impacts Disclosures for the SFDR

Box 13: SFDR mandatory environmental PAI coverage by type of company (against 16,000 companies)



***Source**: Bloomberg*

➢ **Observed misuse of the framework as a labelling regime**

The trend that the **three sets of products' disclosures under the SFDR have been used as 'de facto' categories/labels** has been widely observed: (i) Article 6 for all managed funds[404]; (ii) Article 8 for products which promote environmental or social characteristics; and (iii) Article 9 for funds which have a sustainable investment objective[405]. These articles have been effectively used in the market in line with distribution and client appetite as if they were investor facing labels, yet with none of the criteria or procedural steps which normally underpin widely used and accepted categories and market labels (e.g. compliance with externally drawn up criteria, independent certification, validation by a third party etc.)[406].

The responses to the public consultations confirmed this trend, with 83% of respondents (245 out of 296) agreed that the SFDR is currently **not being used solely as a disclosure framework as intended but is also being used as a labelling and marketing tool**.

This was partly due to implied differences in the ambition level of products where Article 8 and Article 9 products have been commonly referred to as 'light green' and 'dark

[404] Article 6 applies to all SFDR financial products, requiring general information on whether and how sustainability considerations are relevant for them.
[405] ICMA, A time for change in the sustainable fund – reflections and recommendations in a new regulatory environment, March 2025
[406] Some common features of categories vs. labels are set out in Annex E in Categorisation of products under the SFDR: Proposal of the Platform on Sustainable Finance, December 2024

green' products, respectively. Collectively, Article 8 and Article 9 constitute nearly 60% of the universe of EU funds in scope of the SFDR by assets, which have totalled around EUR6 trillion, and 50.1% by number of funds.[407] Another explanation for the misuse of the disclosure articles is the demand and market pressure to classify products into different sustainability-related categories[408].

3.1.2. Coherence

Is the framework coherent with other parts of the sustainable finance framework? Are existing provisions coherent with each other?

In terms of coherence, the SFDR has introduced **multiple layers of sustainability-related requirements** that are considered complex to apply, including **in tandem with other parts of the sustainable finance framework**. The bulk of the complexities mainly comes from the three steps underlying the definition of 'sustainable investment' (as described at the beginning of section 3.1.1 above, i.e. contribution, DNSH and good governance) that need to be conducted as part of the sustainability assessment for funds disclosing under Article 9. Certain **legal misalignments between these concepts and other obligations required from other pieces of the sustainable finance framework** have been signalled as increasing the complexity of the SFDR implementation.

The SFDR and the other sustainable finance rules are closely interlinked and are intended to complement each other to form a coherent set of disclosures, criteria and investment tools. The frameworks were conceived to work well together to ensure that the different pieces and criteria provide legal certainty to users, including to help FMPs define their approach to sustainability and to ensure they have access to the necessary data from underlying investments to comply with their reporting obligations and conduct their sustainability assessments.

However, despite the need to work well together, some unintended legal misalignments have led to some inconsistencies and mismatches in the definition of sustainability-related concepts and disclosures.

- **Misalignments between 'environmentally sustainable economic activities' under the EU Taxonomy and 'sustainable investment' under the SFDR**

The coexistence between the **SFDR definition of 'sustainable investment' and what constitutes an 'environmentally sustainable' activity under the EU Taxonomy** is considered problematic due to the absence of a clear legal link between these two concepts and technical differences.

The SFDR definition is entirely based on disclosure requirements and offers flexibility to FMPs to calibrate their approach. It is designed to be broader than the approach of the EU Taxonomy, which establishes a robust and science-based classification system by providing a set of criteria to identify economic activities substantially contributing to the EU's six environmentally objectives. The Taxonomy was therefore meant to act as an efficient measuring tool for investors for certain types of assets while the sustainable

[407] Morningstar, Q4 2024 Morningstar - SFDR_Article_8_and_Article_9_Funds_Q4_2024_.pdf
[408] Platform for Sustainable, Briefing on EC targeted consultation regarding SFDR implementation, December 2023

investment definition was meant to enable FMPs to disclose other methodologies and approaches to define sustainability.

This has the effect that investments in Taxonomy aligned economic activity are not automatically deemed as sustainable investments under the SFDR. This is mainly due to technical differences between the DNSH test under the SFDR and the DNSH test under the Taxonomy Regulation[409] (e.g. a taxonomy-aligned investment could fail the DNSH test under the SFDR if it is not aligned with the approach taken by the FPMs regarding the consideration of social principal adverse impacts). This lack of clarity hindered the objective of the EU Taxonomy, i.e. setting a common language to define sustainability throughout the whole regulatory framework. It also further rendered more complex in the implementation of these concepts, especially in cases where FMPs are applying both concepts simultaneously.

In addition, the fact that **different sustainability-related concepts and processes under the SFDR and the EU Taxonomy** are using the same or similar terms has led to further confusion and complexities for investors (i.e. two different DNSH tests under the two pieces of regulation, two approaches to '(substantial) contribution', 'minimum safeguards' under the Taxonomy vs 'good governance' under the SFDR) regarding what are, in fact, sustainable economic activities and investments[410].

Despite the clarification provided by the Commission in June 2023 regarding the assessment of Taxonomy-aligned investments under the SFDR framework[411], many respondents to the public consultation suggested that more effort should be made to simplify the interactions between the SFDR and the Taxonomy[412].

- **Misalignments between 'sustainable investment' under the SFDR and the Benchmarks Regulation**

Despite the legal link between the SFDR and the EU climate benchmarks under SFDR Article 9(3), there are a few **technical differences between the requirements for PAB and CTBs and the definition of 'sustainable investment' under the SFDR** which have caused confusion among market participants regarding the status of passive financial products tracking a PAB/CTB under the SFDR and make their use more complex.

Only 7% of respondents (19 out of 261) of the public consultation agreed that the SFDR approach to DNSH and good governance are consistent with the ESG exclusions under the PAB and CTB, against 34% (88 out of 261) who totally or mostly disagreed while the rest of the respondents 'partially disagreed and partially agreed' (24%, 62 out of 261) or indicated 'don't know/no opinion/not applicable' (35%, 92 out of 261). [413]. This refers to the few misalignments between the principal adverse impacts under the SFDR (as defined in the Annex 1 of the Delegated Regulation (EU) 2022/1288) and the exclusions under the EU Climate Benchmarks (as defined under the Article 12 of the Delegated Regulation (EU) 2020/1818).

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[409] DNSH criteria under the Taxonomy are under review as announced under documents accompanying the Omnibus proposals

[410] Fit for Future Platform Opinion, October 2024

[411] Commission Notice on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation, June 2023

[412] Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024

[413] Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024

These unintended misalignments between the two frameworks have been noted to hinder the objectives of the EU climate benchmarks within financial markets, i.e. to provide comfort and certainty to their users[414]. Moreover, the disclosures under the Benchmark Regulation for ESG benchmarks and the SFDR are not fully aligned. As a result, many stakeholders have referred to the difficulties that this entails for passive fund managers, who fully rely on the design of the benchmarks they track and therefore would benefit from benchmark-level disclosures to perform their own fund-level disclosures.

- **Mismatch in data expected under the SFDR and provided under other parts of the EU framework**

FMPs and FAs are expected to report sustainability-related information of financial products based on **information disclosed or communicated by the issuers of the underlying investments of the product. However, such data is often lacking** (a challenge set to increase with the changes pursuant to the omnibus), with substantial data gaps in the information needed for FMPs to meet the reporting requirements outlined in the SFDR[415].

For example, respondents to the consultation regarding whether the SFDR disclosures are consistent with the CSRD requirements, more respondents disagreed (47%, 134 out of 285) than agreed (15%, 42 out of 285)[416]. In their written responses, many FMPs and financial advisers welcomed the alignment between the PAI indicators of the SFDR and ESRS but referred to technical misalignment in the definitions and terminologies used.

In addition, the approach to materiality has created a gap between the reporting obligations between the two regimes. Under the CSRD, reporting entities are allowed not to report against certain sustainability indicators if deemed 'not material' in the entities' own materiality assessment. However, unlike investee companies, FMPs are required to consider all mandatory principal adverse impacts (PAIs) under the SFDR, regardless of whether these indicators are material to the FMPs' investments[417].

To alleviate the data gap created with this difference in materiality approach, the European Commission published in November 2024 an FAQ[418] clarifying that where an investee undertaking sets out that an indicator is non-material under CSRD reporting, a fund manager can rely on this to determine that the investee undertaking is also not contributing to the corresponding PAI under SFDR. However, the issues linked to materiality continue to be flagged as an impediment for FMPs to access necessary data.

Further, FMPs often rely on sustainability indices to measure the sustainability performance of a specific portfolio. This is especially the case for ETFs and other index-tracking products. The Benchmark Regulation introduced ESG disclosures for all benchmarks with ESG factors, mandating administrators to disclose whether they integrate ESG in their benchmark design, and if so how. The Benchmark Regulation also

[414] European Parliament, study requested by the ECON committee, The implementation of the Sustainability-related Financial Disclosures, July 2024
[415] Filling in the Data Gaps: The Current State of Reporting on Principal Adverse Impacts Disclosures for the SFDR
[416] Platform for Sustainable, Briefing on EC targeted consultation regarding SFDR implementation, December 2023
[417] EFAMA responses to EC targeted consultation on the implementation of the SFDR, 20 December 2023
[418] Commission Notice (C/2024/6792) https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:C_202406792

requires administrators of EU Climate Benchmarks to regularly report against a set of ESG KPIs.

However, the ESG information provided by benchmark administrators has not been sufficient for FMPs to comply with the information required from financial products by the SFDR, mainly due to a misalignment between the ESG KPIs required from benchmark administrators under the BMR and the ones required from FMPs under the SFDR. Only 9% of respondents (24 out of 260) totally or mostly agreed that the ESG information provided by benchmark administrators aligns sufficiently with the information required by the SFDR for products referencing these benchmarks, compared to 33% who totally or mostly disagreed (87 out of 260)[419].

EFAMA also argued that *'benchmark administrators lack any regulatory incentive to provide the data to support asset managers to meet their disclosure and product governance requirements without the potential for significantly increased costs and where managers have no direct agency over the consistency, validity or quality of such data'*[420].

This issue is particularly impactful on the universe of SFDR products, as reliance on index providers is prevalent. For example, the Frank Bold's study[421] revealed that 26 of the 43 analysed products are using indices for portfolio construction or performance assessment (including 5 of the 6 products disclosures under Article 9). Notably, 22 products depend on a single provider, highlighting a monopolistic trend in the sector.

Finally, the proposed omnibus[422] on sustainability reporting foresees considerable changes to the landscape of sustainable finance rules. The omnibus proposed to reduce the scope of entities that will be reporting ESG information under the CSRD and the EU Taxonomy. Depending also on the uptake of the future voluntary sustainability-related information standard for those outside the CSRD scope, this is set to widen the existing ESG data gaps as fewer entities will provide FMPs with the necessary data for their reporting obligations under the SFDR.

- **The SFDR rules are seen as not catering sufficiently for certain ESG strategies and assets and to be out of step with more recent guidance**

The underlying concepts of the definition of sustainable investment also **does not adequately capture the concept of transition finance or cater for transition finance strategies**, hindering the possibility for financial products (especially the ones disclosing under Article 9) to focus sufficiently in investing in transitional assets[423] (e.g. decarbonisation objective or social transition). This is in part due to the DNSH test which

[419] Platform for Sustainable, Briefing on EC targeted consultation regarding SFDR implementation, December 2023

[420] EFAMA responses to EC targeted consultation on the implementation of the SFDR, 20 December 2023

[421] Frank Bold, SFDR review : analysis of current practices and future directions for investors, December 2024. This research seeks to provide insight into how influential FMPs have implemented the SFDR requirements. It examines entity-level disclosures of 15 FMPs and product-level disclosures of three investment funds per FMPs, totalling 43 investment products. List of investors: BlackRock, JP Morgan, Credit Agricole/Amundi, Goldman Sachs, Allianz, UBS, Morgan Stanley, BNP Paribas, Deutsche Bank/DWS, Natixis, AXA, Generali, Federated Hermes, Sumitomo

[422] Commission proposes to cut red tape and simplify business environment - European Commission

[423] 78% - 231 out 298 – of respondents to the public consultations argued that the current SFDR rules do not effectively capture investments in transition assets. European Commission, Summary Report of the open and targeted consultations of the SFDR assessment, published May 2024

can be seen at odds with the strategy of transition finance as it does not allow for the inclusion of assets that cannot be considered as sustainable at the time of the investment. Some technical misalignments between the sustainable investment definition and the underlying criteria of the EU Climate Transition Benchmark (defined under the Benchmark Regulation) further hindered the possibility to conduct and disclose transition-related investment strategies under the SFDR. The issue is linked more broadly to the absence of a clear definition of "transition finance" in EU legislation[424] and the limited use of the EU Taxonomy for this purpose[425].

Finally, the current SFDR rules coexist with the **ESMA guidelines on funds' names,** which aimed to partially (they only apply to investment funds) fill the perceived SFDR regulatory gaps. These guidelines have recently introduced minimum criteria for funds using ESG terms in their names (on top of SFDR disclosures that also apply to these funds). The guidelines were largely an attempt to bring clarity for investors amid FMPs' myriad sustainability-linked claims through the introduction of minimum criteria. They constitute the latest regulatory guidance, after notably a prior reclassification of Article 9 funds in Q4 2022, having resulted in some relabelling and renaming of EU sustainable finance funds.

They became applicable in November 2024 for new funds. For funds existing before this date, there is a transition period extending until 21 May 2025. Funds using terms related to 'environmental', 'impact' (additional impact disclosures) and 'sustainable' must apply the exclusions in the EU Paris-aligned benchmark (PAB) implementing rules (among other things), and funds using terms related to 'transition' (additional transition disclosures) 'social' or 'governance' must apply the exclusions in the implementing rules for Climate transition benchmarks (CTB). For CTB, these exclusions concern companies involved in controversial weapons, tobacco, or in violation of defined social safeguards, while for PAB they also include those involved in fossil fuels above certain thresholds. Funds should also allocate at least 80% of investments to meeting the targeted ESG objectives.

3.2. How relevant is the SFDR?

Is the SFDR still relevant? (in terms of evolving objectives and needs)? How relevant is it in light of market developments and given political priorities?

The **overwhelming majority (89%) of consultation-respondents consider that the objective to strengthen transparency through sustainability-related disclosures in the financial services sector is still fully relevant with over 90% considering that a disclosure framework at EU level is more effective and efficient than measures at Member State level**. While the consultation predates some of the latest policy realignments and geopolitical shifts, as well as the implementation of the ESMA

[424] The Recommendation on facilitating finance for the transition to a sustainable economy of June 2023 provides four, non-exhaustive, examples of how market participants can use the existing tools under the EU acquis to identify transition investment opportunities.

[425] The Commission has clarified in the Delegated Regulation part of the Omnibus Package that based on Article 8 of Regulation (EU) 2020/852, companies can be allowed to report on their activities which fulfil only certain requirements of Article 3 of the Taxonomy Regulation. Such reporting on partial alignment would provide more flexibility and foster a gradual environmental transition of activities over time, in line with the aim to scale up transition finance. The information on partial alignment of economic activities with the EU Taxonomy may be a useful indication to investors, financial markets or policymakers and other third parties about the current environmental performance of the activities concerned.

guidelines for fund names, broad support for a common regime in this area continues to be demonstrated in all recent stakeholder engagement and outreach, outlined in Annex 1. The feedback signals support for both the broad objectives of the SFDR in contributing toward the greater consideration of sustainability in investment practices, and to this end, the added value of a common sustainability disclosure framework at EU level.

The Commission President's mission letter for Commissioner Albuquerque **thus asks to facilitate implementation of the sustainable finance framework, to scale up its impact and to 'promote the development and transparent categorisation of financial products and services with sustainability features'**[426]. The revision of the SFDR has been planned in the Commission work programme for Q4 2025, to ensure an appropriate simplification of the rules, **commensurate with the objectives of the Commission's proposals to simplify sustainability reporting for companies**.

After some initial pushback to the ESMA fund name guidelines[427], anecdotal stakeholder feedback increasingly suggests that there is growing acceptance among FMPs for the changes which they have introduced. Nonetheless, the guidelines do not apply to all products under the scope of the SFDR, do not constitute strict legal requirements[428], and govern only the use of ESG terms in fund names and leave SFDR-related requirements and disclosures intact.

Without effective EU-level action to remedy the shortcomings noted above, the challenges explained earlier would persist, and the necessary simplification to boost the effectiveness and efficiency of the single market for sustainable finance products would not be ensured. Conversely, a repeal of the SFDR would mean depriving financial market participants, distributors and investors of a common framework for sustainability-linked claims involving financial products, meaning the policy field would become unregulated again, contrary to the expressed preference of the large majority of stakeholders.

Finally, in terms of coherence of the overall sustainable finance framework, without commensurate changes in other linked parts of the framework, repealing the SFDR would render some provisions in these other areas meaningless (e.g. links to SFDR-specific terms in sustainability preferences under MiFID/IDD). Without a defined use-case for financial products, the purpose of other parts of the sustainable finance framework, e.g. sustainability information required under CSRD and Taxonomy, would also be partially undermined. The Omnibus proposals also opted not to repeal the CSRD and Taxonomy, rather to pare back specific requirements.

[426] ac06a896-2645-4857-9958-467d2ce6f221_en

[427] For example, around half of respondents to ESMA's consultation on the fund name guidelines were opposed to including quantitative thresholds and exclusions linked to fund names.

[428] Financial market participants are required to "make every effort to comply" with the guidelines as per Article 16(3) of Regulation (EU) No 1095/2010 establishing ESMA. One Member State (CZ) has also signalled that they will not apply the guidelines.

3.3. What is the EU added value of the SFDR?

Has the SFDR been justified, and does it continue to be justified? What has been the value-added compared to national rules?

Notwithstanding the shortcomings enumerated in section 3.1, the continued relevance of the principles and objectives of the SFDR are not in question, as assessed in section 3.2. However, there is a need to address the detailed shortcomings, which can only be done at EU level. While Member State level action could partially address some of the shortcomings (e.g. through national sustainable investment labels), the likely result would be further fragmentation of the single market, in a way which would not deliver a comprehensive, simplified, effective and efficient outcome for EU markets and investors, in line with the objectives of the regulation.

Conversely, remedying the shortcomings at EU level would ensure that they are addressed in a harmonised, effective, efficient and coherent manner across the single market, and in support of the broader strategic objectives of the Union, including consistency with the climate-neutrality objective of the climate law[429]. Requirements and disclosures could be simplified across the board, both for the benefit of FMPs and investors, in a harmonised way throughout the Union. Common solutions to transparency-related challenges regarding access to ESG datapoints could be designed in a way which facilitates the business of financial market participants in an even way across the EU and protects investors, and tackles information asymmetries, equally regardless of which Member State they are located in. This could in turn better serve the objective of mobilising funds toward the competitive opportunities in the green transition and other evolving strategic priorities in line with Union objectives, including contributing to empowering the greater participation of investors in EU capital markets, in line with the objectives of the Savings and Investments Union[430].

4. Conclusions and lessons learned

The conclusion drawn from the above is that, despite some success in setting up a common framework for sustainability-related disclosures for investments, the SFDR falls short of realising its full potential in terms of effectiveness and efficiency in achieving the objectives set, and in terms of coherence with the rest of the sustainable finance framework. The anticipated benefits in terms of levelling information asymmetries, tackling greenwashing and helping to boost investment toward more sustainable economic practices have not been fully met, given undue complexity, uncertainty and excessive costs.

The underlying reasons why this has turned out to be the case, for a framework which has only applied in full for a few years, can be summarised as follows. First, the SFDR began to apply in March 2021, before its detailed Level 2 implementing rules which specified its novel concepts were finalised and began to apply in 2023. Thus, financial market participants had to apply the new regime under considerable initial uncertainty in the first phase and make adjustments once the Level 2 rules entered into force[431]. Challenges

[429] Regulation (EU) 2021/1119 of 30 June 2021 establishing the framework for achieving climate neutrality (European Climate Law)

[430] Savings and Investments Union

[431] However, different parts of the rules, such as those with regard to the integration of sustainability risks in the investment decision- making process, hinged less on further details in the regulatory technical

linked to the unclarity and complexity of several concepts and requirements emerged from the outset[432], together with some misalignments with the rest of the sustainable finance framework.

Second, the lack of clarity and complexity of the concepts and requirements has necessitated successive additional pieces of guidance, provided by the Commission and European Supervisory Authorities (ESAs), in response to numerous interpretation and implementation questions raised by market actors. These have not always been sufficient to help overcome the underlying complexity and to facilitate implementation for FMPs, and have entailed further adjustments in the composition, naming and disclosures of various financial products, adding to the perceived implementation burden.

Third, data gaps also became apparent in terms of the requirements of the SFDR on the one hand, and scarce available market data on the other. Given that the SFDR entered into application before other key pieces of the EU sustainable finance framework, namely detailed sustainability disclosures from companies under the Corporate Sustainability Reporting Directive/European Sustainability Reporting Standards and the EU Taxonomy, which were intended to increasingly inform product disclosures under the SFDR, a data challenge for products to be able to demonstrate their sustainability credentials was present from the beginning[433]. That said, comprehensive, reliable and comparable sustainability information from investees was never going to be delivered fully (and cheaply) through these disclosures alone, even before the changes under the Omnibus proposals. For one, a large part of the investments by financial products is made in companies not subject to these rules (e.g. non-EU companies or other assets outside the scope of the EU rules).

Finally, throughout the early implementation phase, it became evident that most of the concepts for the new disclosures for investors, in particular retail investors, were not easily understandable or readily usable by them. Thus Article 8 and 9 became used as a way to convey a high-level message of products' key features, but without the technical elements designed for this purpose. Considerable evidence also emerged from the consultations that the vast majority of end-investors would be better served by shorter and more focused information than the lengthy SFDR disclosures.

Consequently, the following problem drivers are key starting points for the SFDR review to tackle:

1. **Sustainability-related concepts and disclosure requirements which are unclear, complex, and difficult to implement, and which necessitate disclosures which are lengthy and difficult to compare for investors.**
2. **Misalignment and duplication between specific concepts and requirements in the SFDR and other EU sustainable finance legislation.**

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standards, while for others such as financial products that qualify under Articles 8 and 9 of the Regulation, the transparency required from financial products on how levels of sustainability are achieved applied irrespective of the Level 2, and based on available data.

[432] As an illustration, pending the final Level 2 measures and templates, some market operators took on the development of a European ESG template (EET) to facilitate information flow on products under the SFDR between product manufacturers and distributors. The template has since undergone several revisions to accommodate changes to the framework. See: FinDatEx

[433] Sustainability data published by investees began in 2018 under the Non-Financial Reporting Directive (Directive 2014/95/EU), which the December 2019 Communication on the European Green Deal committed to review in order to strengthen the foundations for sustainability data and investment.

3. **Data gaps in available ESG data, lack of harmonised guidance for the use of estimates.**
4. **Unintended use of the SFDR's disclosure categories as de facto labels, but without common criteria or other requirements fit for this purpose.**

The lessons learned for the review of the SFDR from the problem drivers and their root causes can be summarised as the need to (i) ensure a coherent implementation timeline for the future changes, (ii) introduce clearer, simpler and more proportionate rules and concepts for FMPs' and investors' benefit, (iii) explore the case for formalising and embedding these in a framework of product categories, in accordance with the revealed preference of markets to cluster products in this way, and (iv) ensure that the revised concepts, rules and possible categories rely on ESG data that is available and/or possible to reliably estimate.

ANNEX 12: SME CHECK

OVERVIEW OF IMPACTS ON SMES

Relevance for SMEs
The initiative is directly relevant for FMPs which are SMEs, but less so for SMEs as investees.

(1) IDENTIFICATION OF AFFECTED BUSINESSES AND ASSESSMENT OF RELEVANCE
Are SMEs directly affected? In which sectors?
Yes, namely in the financial sector
Estimated number of directly affected SMEs
The vast majority of FMPs are SMEs, which can e.g. be concluded from the number of entities disclosing on a mandatory basis because of exceeding an employee threshold of 500 that was estimated based on a sample by ESMA to at least 400 FMPs, whereas in the same sample about 3400 FMPs were not subject to mandatory disclosures (i.e. <500 employees).[434]
Estimated number of employees in directly affected SMEs
Not available.
Are SMEs indirectly affected? In which sectors? What is the estimated number of indirectly affected SMEs and employees?
SMEs as investees can, together with the safeguards of the omnibus (as explained in the competitiveness check, Annex 5), benefit from the flow of funds and be included in products under a simple categorisation system, as well as from lower reporting and compliance costs incumbent on FMPs.

(2) CONSULTATION OF SME STAKEHOLDERS
How has the input from the SME community been taken into consideration?
The public consultation asked whether respondents were SMEs, which was the case for 128 out of 324 replies.
Are SMEs' views different from those of large businesses?

[434] According to the ESAs Annual Report to the Commission under Article 18 of Regulation (EU) 2019/2088: JC 2024 68 Report on the Principal Adverse Impact disclosures under the Sustainable Finance Disclosure Regulation

No, in the sense that SMEs as well as large companies pointed out that the costs are significant for them. One stakeholder pointed out that smaller firms may not have the resources, in particular financial, to accommodate the increasing reporting demands, which can put them at risk and at a great disadvantage compared to larger firms.

(3) ASSESSMENT OF IMPACTS ON SMES
What are the estimated direct costs for SMEs of the preferred policy option*?*
Qualitative assessment
FMPs which are SMEs are expected to be the main beneficiaries of the overall cost savings detailed in Annex 3.
Quantitative assessment
In Annex 3, we summarise our estimations of the one-off and recurring costs for businesses in the baseline scenario, decomposed to large and SME in the baseline scenario as well as the changes for the preferred combination of policy options. For the removal of entity level disclosures, we do not expect additional costs and for the simplification of product level disclosures we expect limited implementation costs as the one-off costs have been incurred in the past and the proposed simplified structure will remove burdensome disclosures. The costs for the product categorisation system are also expected to be limited as it builds to a maximum extent on existing structures such as the minimum safeguards from the ESMA guidelines on funds names that have already been implemented.
What are the estimated direct benefits/cost savings for SMEs of the preferred policy option?
Qualitative assessment
FMPs which are SMEs are expected to be the main beneficiaries of the overall cost savings detailed in Annex 3.
Quantitative assessment
Currently, we estimate SME to incur about EUR 163 million of annual recurring costs, of which about EUR 43 million are for entity-level disclosures and EUR 120 million for product level disclosures. While the reduction of entity-level costs in the preferred combination of options is certain with only minimal one-off costs, and we estimate that more than 50% of product-level costs can be saved thanks to the significant reduction of product-level disclosures, we were not able to collect sufficient evidence for the one-off impacts of the introduction of a product categorisation system. In addition, SMEs would benefit more than proportionally from simplification as we can observe pronounced cost digression effects, i.e. in relative terms SMEs incur much higher costs relative to their AUM than larger firms due to certain minimum efforts that are necessary to build and maintain sustainability related disclosures.
What are the indirect impacts of this initiative on SMEs?
SMEs as investees can benefit from the flow of funds and be included in products under a simple categorisation system, as well as from lower reporting and compliance costs incumbent on FMPs.

(4) MINIMISING NEGATIVE IMPACTS ON SMES
Are SMEs disproportionately affected compared to large companies? **If yes, are there any specific subgroups of SMEs more exposed than others?**
Yes, notably FMPs which are SMEs, see section 3 above.
Have mitigating measures been included in the preferred option/proposal?
No

CONTRIBUTION TO THE 35% BURDEN REDUCTION TARGET FOR SMES
Are there any administrative cost savings relevant for the 35% burden reduction target for SMEs?
The reduced administrative requirements linked to the removal of entity-level disclosures (option 1.2) would eliminate burdens estimated to account for 25% of the costs under the current rules, largely incumbent on FMPs which are SMEs. In addition, the simplification of product-level disclosures (option 2.2) and introduction of product categories (option 3.1) in line with market practices, which overall are estimated to allow cost savings as outlined in Annex 3, are estimated to facilitate further overall burden reduction for SMEs toward the 35% target.