

SFDR 2.0 – Keep it Simple and Enable Transition Finance

The European Commission's proposal to revise the Sustainable Finance Disclosure Regulation (SFDR) is a positive step toward a simpler, more coherent and market-friendly disclosure framework. The reform can significantly support Europe's green transition by improving transparency for investors while enabling the scale-up of transition finance and reducing unnecessary regulatory burdens. Key recommendations include:

- **Preserve a diverse ESG product universe:** SFDR should remain a product-level disclosure regime for investment funds. Banks must be able to continue to offer a broad range of sustainable and transition-related instruments outside SFDR (e.g. bonds, deposits, portfolio management) to support economy-wide decarbonisation. ESG offerings should not be limited to SFDR-categorised funds.
- **The market-friendly product categorisation requires some clarifications:** The proposed three categories - Article 7: Transition, Article 8: ESG Basics, and Article 9: Sustainability - are a strong foundation, but require further refinement to ensure usability and global scalability. Clear, consistent criteria and flexibility are essential.
- **Further strengthen Transition Finance through flexible, forward-looking criteria:** The Transition Category (Art7) is central to financing decarbonisation, especially in hard-to-abate sectors. It should focus on whether a company has **credible forward-looking transition pathways**, and not consider a company's status quo. E.g. overly restrictive exclusions such as the 1% coal revenue threshold, should be avoided as it penalises companies willing to decarbonise on the basis of credible transition plans.
- **Exclusions and contribution thresholds should be aligned:** Mandatory exclusions should be fully aligned with Paris-Aligned Benchmark (PAB) and Climate Transition Benchmark (CTB) lists. Re. the 70% positive contribution threshold, clear guidance is needed on the treatment of the remaining portfolio share to preserve diversification and liquidity.
- **International market standards should be recognised:** To reflect the global nature of sustainable finance, SFDR should recognise established international frameworks alongside the EU Taxonomy and the European Green Bond standard, including: ICMA and Climate Bonds Initiative (CBI) standards, the Science Based Targets initiative (SBTi) guidance, as well as other credible taxonomy interoperability initiatives. This applies in particular to green, social, sustainabilitylinked- and transition bonds, including those issued by Sovereign, Supranational and Agency (SSAs).
- **Simplified entity-level disclosures should apply immediately:** The removal of mandatory entity-level disclosures (e.g. PAI statements and DNSH) is welcomed. Product-level disclosures are more decision-useful for investors, while CSRD should remain the main anchor for corporate sustainability reporting. These simplifications should apply immediately upon entry into force.
- **Regulatory coherence with MiFID II, IDD and PRIIPs must be ensured:** The SFDR reform must be coordinated with changes to MiFID II and the Insurance Distribution Directive (IDD) to ensure that retail clients can easily express their sustainability preferences; have access to the full universe of sustainable financial instruments and are not limited to SFDR-categorised funds.
- All related Level 2 measures should enter into force simultaneously or be bridged by transitional arrangements.