

FNG Position Paper: Commission proposal SFDR 2.0

Main FNG positions

- 1. Introduction of product categories:** We welcome the initiative to introduce a categorisation system with clear thresholds. We support a core set of minimum exclusions and call for sovereign bonds as well as cash to not be included at all in the calculation of the 70% threshold. We urge Parliament and Council to reconsider the removal of the definition of sustainable investment.
- 2. The PAIs:** We welcome the removal of the PAI statement at entity level. At fund-level, a mandatory core set of PAIs should be maintained.
- 3. Products beyond the categories:** Products which do not fall in the three suggested product categories should be clearly labelled as non-sustainable. They should disclose the same set of Principal Adverse Impact Indicators as sustainable products.
- 4. Impact Investing:** We very much support the Commission proposal to include a definition of impact investing in the future SFDR.
- 5. Investments in weapons:** We are strongly opposed to labelling investments in weapons as sustainable because while their objective is defence, they inflict harm on infrastructure, the environment and people.
- 6. Data and estimates:** We support the introduction of new data governance provisions.
- 7. Issues which have not been addressed in the proposal:** Engagement, interoperability and the relations of the future SFDR 2.0 to the existing ESMA Fund Name Guidelines should be better addressed.

The **FNG – Forum Nachhaltige Geldanlagen e.V.** is the association for sustainable investments in German-speaking countries (D, AT, CH). We are a founding member of the European association **Eurosif**. With its members, including banks, investment companies, rating agencies, and financial advisors, the FNG is the voice of the sustainable finance industry.

Introduction

The European Commission's proposal of 20 November 2025¹ to revise the Sustainable Finance Disclosure Regulation (SFDR)² represents a critical opportunity to strengthen the EU's sustainable finance framework. By aiming to make sustainability disclosures simpler, clearer, and more investor-friendly, the proposal directly addresses well-known shortcomings of the current regime, including greenwashing risks and limited comparability between financial products. If designed and implemented well, the revision can significantly enhance trust, usability, and effectiveness across the market.

We very much welcome the Commission's ambition to improve SFDR, in particular the move towards a product categorisation system with explicit criteria and thresholds. While it is certainly a shock to the market that parts of the framework introduced only recently may be revised or discontinued—despite the considerable effort invested by market participants, for example in developing PAI statements—we recognise the value of removing requirements that have proven impractical or insufficiently used in practice. What matters most is that the revised framework delivers clarity and real-world impact.

Importantly, with this proposal the Commission is taking up much of what has been discussed and already carried out in the market. We therefore approach the revision with optimism: Clear product categories can reduce challenges around compliance and greenwashing risks and deliver more transparency for investors, thereby reinforcing the credibility of sustainable finance in the EU.

The revision should therefore prioritise clarity—not only within SFDR itself, but across the broader sustainable finance architecture. SFDR should be interoperable with other sustainable finance legislation, with consistent definitions and concepts applied across EU legislation. Above all, the framework should motivate and accompany fund managers on their sustainability journey, regardless of whether they are green pioneers or just starting out. Every simplification and clarification is a step towards a larger, more effective and future-proof sustainable finance market.

This position paper aims to contribute to the ongoing discussions and to support the positioning of the Council and the European Parliament in shaping a revised SFDR.

¹ [Proposal for a Regulation 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](#), p. 2. Unless otherwise stated, references in the position paper refer to the Commission proposal.

² [Regulation \(EU\) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services sector](#)

1. Introduction of three product categories

Commission Proposal

- Replace the existing classification under Articles 8 and 9 with three voluntary product categories — “Sustainable”, “Transition”, and “ESG Basics” — described as simpler, clearer and less data-intensive for market users.
- Delete the definition of sustainable investment (current Art. 2(17)).

FNG position

- We welcome the initiative to introduce a categorisation system with clear thresholds and the introduction of a dedicated transition category alongside the sustainable category.
- We support a core set of minimum exclusions, and call for sovereign bonds as well as cash to not be included at all in the calculation of the 70% threshold.
- We urge Parliament and Council to reconsider the removal of the definition of sustainable investment.

With the proposal to create a new product classification system comprising the categories “Transition” (Article 7), “ESG Basics” (Article 8) and “Sustainable” (Article 9), the European Commission responds to the market’s demand for standardisation. The SFDR, which was originally designed as a transparency regulation, has in practice been used by financial market participants as a product classification tool, despite the absence of clear thresholds or quantitative criteria. We therefore welcome the initiative to introduce a categorisation system with clear thresholds.

We also welcome the differentiation between categories, as it is essential to reflect both investments in activities that are already environmentally sustainable and those that are actively transitioning towards sustainability. From our perspective, a credible sustainable finance framework must explicitly recognise the complementary role of both approaches.

We therefore strongly advocate for a future SFDR that establishes a robust and enabling regulatory framework, allowing investors to deliberately and transparently pursue both green and transition investment strategies.

FNG comments on the categories

Minimum exclusions: We support the introduction of a set of minimum exclusion criteria, preferably harmonised across all product categories. From the perspective of financial advisers and end investors, it is essential that a consistent baseline can be communicated: regardless of the category chosen, certain activities are unequivocally excluded.

While we acknowledge that the scope and stringency of exclusions will necessarily differ between sustainable and transition products, we advocate for a common minimum standard. The existing reference to the PAB exclusions ([Delegated Regulation 2020/1818](#), Art. 12(1)(a–d)) provides such a foundation. In section 5, we provide further comments on the appropriate content and calibration of these exclusions (investments in weapons).

We very much welcome the exclusion of coal in all three categories. While 1% might seem a very low threshold in particular for the transition category, it only reduces the investible universe by 0,5%, as data from our member Clarity AI shows. We are therefore very much in favour of maintaining this threshold also for the Transition and ESG Basics categories. Investments in companies which derive a significant share of their revenue from coal should not be part of the three product categories. Applying the proposed exclusion will help to ensure that the categories and ultimately the products are credible.

With a view to the exclusions more generally, we would also like to point out that the Directive is very much geared towards liquid assets. For illiquid assets, it is not possible to act in the short term and at the same time in the best interests of investors if a threshold is passively exceeded.

ESG Basics (Art. 8): From our perspective, the proposed Art. 8 is a suitable category for products currently operating under existing Article 8, with relative ease of implementation.

70% minimum investment threshold: With a 70% threshold, there can be 30% of investments in a sustainable product which in fact are not sustainable. In conjunction with changes to the methodology (see below: sovereign debt issuance and cash holdings) we therefore call for a threshold of 80% across all three categories. While this level is ambitious, it still leaves room for product differentiation and for investors to voluntarily exceed the minimum share of sustainable investments.

To ensure this ambition is clearly understood and to strengthen investor empowerment, the exact proportion of the fund that is subject to the sustainable investment strategy should be prominently disclosed in investor-facing documents, such as the PRIIPs KID, as well as in the EET. This level of transparency is essential to enable informed investment decisions and to allow investors to align their choices with their sustainability preferences.

Sovereign debt issuance and cash holdings: Sovereign bonds without a defined use of proceeds, as well as cash holdings, cannot generally be considered sustainable investments. While we note that sovereign debt issuance is addressed in Recital 22 of the Proposal and is suggested to be excluded from the numerator when calculating the 70% threshold, this approach risks distorting the calculation.

Sovereign bonds and cash should be excluded from both the numerator and the denominator. Treating these exposures as neutral would ensure a fair and technically sound calculation of the threshold, avoid unintended penalisation of certain investment strategies, and enhance the overall credibility and comparability of the framework.

Terminology: We strongly recommend deferring the naming of the three categories to Level 2 and making any final decision conditional on thorough consumer testing. Category names play a decisive role in shaping retail investors' understanding and expectations and must therefore be carefully calibrated.

With regard to the *sustainability* category, we see a particular risk of conceptual ambiguity. “Sustainability” is an umbrella term that can legitimately encompass a wide range of investment approaches, including transition strategies. Using such a broad concept to label a single, specific category risks confusion and misinterpretation. Concerning *ESG Basics*, there is a risk that the term may be perceived as implicitly inferior or of lower quality due to the connotation of being “basic”. For the *transition* category, the key question is whether the concept and terminology are sufficiently intuitive and easily understood by a broad retail investor audience.

Overall, clear, tested and consumer-centric terminology is essential to ensure trust, comparability and effective market uptake.

Deletion of the current definition: The Commission proposes to delete the current definition of sustainable investment in Article 2(17). While we fully acknowledge the well-documented shortcomings of this definition — in particular its broad scope and the resulting variability in reported shares of sustainable assets, which, as shown for example by ISS Insights, can range from 13% to 84% depending on the methodology applied³ — its complete removal would create a significant regulatory gap.

Importantly, the encompassing nature has been a strength of Article 2(17), as it allowed sustainability dimensions not otherwise covered in the regulatory framework to be captured, most notably social aspects. Given that an extension of the EU Taxonomy to comprehensively cover social objectives is more than unlikely in the near term, Article 2(17) remains a crucial anchor for social sustainability within SFDR.

We are further concerned that the reference to the Do No Significant Harm (DNSH) principle is embedded in this definition. Removing Article 2(17) without an adequate replacement would effectively eliminate DNSH as a cross-cutting concept from the Regulation. This is problematic because the DNSH principle is an important safeguard in this context.

We therefore strongly recommend maintaining a form of the sustainable investment definition in the future SFDR, albeit in a refined and clarified manner, to preserve both conceptual coherence and regulatory ambition.

³ [Different Views of Sustainability: Alternative Approaches to Applying the EU's Disclosure and Naming Rules in Practice](#), published on 23 February 2023.

2. The Principal Adverse Impact Indicators (PAIs)

Commission proposal

- Remove PAIs at entity level.
- Make reporting at fund level more flexible and a requirement only for products in the sustainable and transition categories.

FNG position

- We welcome the removal of the PAI statement at entity level. At fund-level, a mandatory core set of PAIs should be maintained and be applicable to all financial products subject to the SFDR regardless of whether they fall into one of the categories.

Entity-level PAIs

We see the removal of **entity-level PAI statements** as a positive reduction of administrative burden. For many market participants, a lot of resources are going into compiling the PAI statements at entity-level. The Commission estimates in its impact assessment that the removal of this requirement will reduce annual costs linked to disclosures by 25% (p. 10 of the proposal). These efforts and costs are not met with sufficient advantages of the disclosures: for many investors, there is little point in comparing fund managers at entity level, in particular if they offer a broad range of sustainable and not-sustainable funds. Directly comparing PAI Statements for the funds in question is much more sensible.

Product-level PAIs

Considering that in practice, it has sometimes been difficult to report on the core set of PAIs prescribed in the current SFDR because of missing data, we welcome that the Commission is addressing this issue in their proposal. However, from our perspective the Commission is going too far when proposing complete flexibility around which PAIs to report.

Data availability is already sufficient (and constantly improving) to require a core set of mandatory product-level PAIs. This would help investors understand adverse impacts better than practitioners choosing indicators on a voluntary basis. The current mandatory set should be evaluated and potentially slightly reduced, and the resulting set should be mandatory for all financial products, not only for Art. 7 and 9. This would allow a direct comparison between ESG basic, sustainable, transition and non-categorised products.

3. Products beyond the proposed categories

Commission proposal

- No additional disclosure requirements for funds which are not sustainable (Art. 6)

FNG Position

- Products which do not fall in the three suggested product categories should be clearly labelled as non-sustainable. They should disclose the same set of Principal Adverse Impact Indicators as sustainable products.

A credible sustainable finance framework requires addressing not only sustainable products, but also those that fall outside Articles 7, 8, and 9. The absence of the same disclosure obligations for these products creates an uneven playing field and risks market distortion, as non-sustainable funds can avoid disclosure and the associated costs. This sets the wrong incentives, in particular in the current environment where we are already seeing headwinds for sustainability. With unequivocal evidence that we need to move away from fossil fuels and end other harmful activities, regulation should set any incentive it can in favour of reaching these goals.

To ensure transparency and comparability, core Principal Adverse Impact (PAI) indicators should therefore also apply to non-sustainable products. This would enable investors to assess negative impacts across the full market, including non-sustainable products, while strengthening the integrity of sustainability claims. To comply with these requirements, we continue to support the introduction of a European Single Access Point for the necessary data and look forward to summer 2027 when the first data is expected to be made public⁴.

4. Impact investing

Commission proposal

- Introduce a new definition for “sustainability-related financial product with impact” that applies only to products under Article 7 or 9 with pre-defined measurable impact objectives.

FNG position

- We very much support the Commission proposal to include a definition of impact investing in the future SFDR because of its growing importance within sustainable finance.

The Commission proposes to introduce a definition of impact investing in the future SFDR: “sustainability-related financial product with impact” means a financial product categorised in accordance with Article 7 or 9 that has as its objective the generation of a pre-defined, positive, and measurable social or environmental impact” (Art. 2(26)).

Products categorised as impact investments would be subject to additional disclosure requirements. The Commission also refers to the ESMA Fund Names Guidelines, stating that the use of the term “impact” is only permitted for funds that fulfil the requirements of Article 7 or 9.

As FNG, we strongly support this addition to the SFDR. Impact investing represents a growing segment of sustainable finance, and its clear recognition within the regulatory framework is both timely and necessary. From our perspective, the proposed approach should serve two essential objectives: creating regulatory clarity and incentives for the development and provision of genuine impact products, while simultaneously establishing robust safeguards against greenwashing and the misleading use of the term “impact”. The

⁴ ESMA, [ESAP expected timeline](#).

Commission's proposed approach to incorporating the term "impact" lays the groundwork for this, the following Level 2 regulation should further support these objectives.

5. Investments in weapons

Commission proposal

- By reference to Art. 12(1) Delegated Regulation 2020/1818, in the future only prohibited weapons will be part of the exclusions.

FNG position

- We are strongly opposed to labelling investments in weapons as sustainable because while their objective is defence, they inflict harm on infrastructure, the environment and people

In the run-up to 2019, when the SFDR was published, investments in arms were not a central topic in the sustainable finance debate. Due to Russia's invasion of Ukraine and the shift in US-American foreign policy, this has changed dramatically since: the EU Commission addresses the topic in the introduction to the proposal. Under the current SFDR, it is possible to invest in arms and disclose sustainability information under Art. 8 or 9. The Commission proposes now to exclude prohibited weapons (via a reference to Art. 12(1) of the [Delegated Regulation 2020/1818](#)) for all three proposed product categories.

We note that Art. 12(1) currently refers to "controversial weapons", but it has been decided to change this to "prohibited weapons", the argument being that the term "prohibited weapons" is more clearly defined than "controversial weapons". The amendment states that prohibited weapons "shall mean anti-personnel mines, cluster munitions, biological and chemical weapons the use, possession, development, transfer, manufacture, and stockpiling of which is expressly prohibited by the international arms conventions to which the majority of Member States are parties". This change clarifies that the exclusion does not apply to nuclear weapons. This change will be applicable from 30 June 2026.

We have made clear over the past years⁵, that investments in any weapons cannot be sustainable – the most obvious point being that they do not meet the Do-No-Significant-Harm principle, because harm is their objective. Many market participants share this position, as can be seen from the high rates of exclusion of weapons as shown in our market study.⁶

Based on these arguments, investments in weapons in general should not be allowed to be included in the sustainable part of the product counting toward the 70% threshold, nor should they be permitted in the remaining 30%. Allowing investments in weapons to be included in sustainable products will lead to a loss of trust by end investors in sustainable finance.

⁵ FNG, [Position und Debatte zu Investitionen in Rüstung](#), Dezember 2024.

⁶ FNG, [Marktbericht 2025](#), Juni 2025.

While we very much support the exclusion of weapons, the current definition is far too broad, in the future even allowing investments in nuclear weapons. We will continue to work with our members and partners to make the clear case, that investments in weapons cannot be sustainable.

As a first step, we call on the Commission to re-open the Delegated Regulation 2020/1818 and explicitly include nuclear weapons in the exclusion.

6. Data and estimates

Commission proposal

- Introduce new data governance provisions (Article 12a) to improve data quality and clarify use of estimates.

FNG position

- We support the introduction of new data governance provisions because it addresses current practice and estimates and requires transparency if estimates are being used.

While data availability is continuously improving, there remain areas where coverage is weaker, such as investments in mid-cap companies and/or in emerging economies. In these cases, the use of estimates is common practice. We support explicitly addressing both the use of estimates and the requirement for transparency regarding such estimates in the text of the Regulation.

7. Issues which have not been addressed in the proposal and open questions

FNG position

- Engagement, interoperability and the connections of the future SFDR 2.0 to the existing ESMA Fund Name Guidelines should be better addressed.

We would also like to raise a number of further points and open questions.

Engagement: while it is recognised that engagement is an important lever of sustainable finance to achieve real-world impact, in the proposal it is only mentioned briefly in Art. 7.

Interoperability: Stronger alignment with IFRS sustainability disclosures would help ensure coherence of data inputs and investor information across frameworks.

Clear structure of all disclosures: both in the interest of machine readability, AI tools and human analysis, disclosures should follow a clear structure. From our perspective, the existing PAI statement was well designed in that regard.

Relation to ESMA Fund name guidelines: We note that the threshold of 70% as proposed is lower than what is currently required under the ESMA Fund Name Guidelines (80%). Above we have argued to raise the threshold in the SFDR to 80% as well. However, from the text of the Regulation it is not clear how the two documents will complement each other. One open question is whether it would be possible for a fund to use the term “sustainable” in its name (and comply with the Guidelines) but under SFDR opt for a categorization of “ESG basic” rather than “sustainable”. If these types of situations could become possible, it would be very confusing for end investors.

Issuance by public sector bodies (in Art. 7): We note that in Art. 7, issuances by public sector bodies with use-of-proceeds are mentioned. For the question whether these investments count towards the 70% threshold, a reference is made to the PAB exclusions as listed in Art. 12(1) of the Delegated Regulation 2020/1818. However, these exclusions are designed for companies, not for public sector bodies.

We also note that in Art. 7 there are two exclusion criteria in addition to the reference to Art. 12(1) Delegated Regulation 2020/1818 for companies, but this is not mirrored for public debt issuance.

Conclusions

We support the rationale and general direction of the SFDR reform proposal, particularly in its aim to simplify the current regime and improve investor understanding. The introduction of three clear product categories will be a huge step forward for sustainable finance. However, we see the need for amending the Commission’s proposal. We call on the European Parliament and the Council to consider a mandatory set of PAIs, the role investments in weapons should (or rather should not) play in sustainable finance and requirements for non-sustainable products closely.

Berlin, den 2. März 2026

Geschäftsführung

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The FNG is the association for sustainable investments in German-speaking countries (D, AT, CH). Our members consist of a variety of different stakeholders including banks, investment companies, rating agencies, financial advisors, research institutions, insurance companies, NGOs and individuals. The FNG promotes information exchange and dialogue between its members – and more broadly between the market, politics, regulation and research. We have been advocating for a legal and political framework fostering sustainable investments since 2001. We are a founding member of the European association Eurosif.