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SFDR 2.0: From Disclosure to Evidence The Next Level of Sustainable Finance

This Position Note outlines in **10 points** what may be considered essential for financial markets and corporate practitioners having to deal with the ongoing SFDR 2.0 reform. Readers are advised to approach this document with caution. Modesty is indeed called for, given the uncertainties surrounding key aspects of SFDR 2.0 at the time of publication.

1 - What Do We Mean by SFDR 2.0?

The Sustainable Finance Disclosure Regulation (SFDR) has been one of the foundational pillars of the European sustainable finance framework. Since its application in March 2021, it has aimed to increase transparency on how financial market participants integrate sustainability risks, consider adverse sustainability impacts and communicate sustainability-related characteristics or objectives to investors.

However, SFDR has also generated a significant market effect that was not originally intended. A disclosure framework became, in practice, a quasi-labelling system. Article 8 and Article 9, initially

designed as disclosure categories, progressively became product signals, distribution tools and shortcuts for investor trust.

SFDR 2.0 responds to this evolution by shifting the framework from disclosure-based classification towards product categorisation. The proposed architecture introduces three main product categories: **ESG Basics**, **Transition** and **Sustainable**, supported by minimum criteria, exclusions, naming and marketing rules, streamlined disclosures and a stronger emphasis on comparability.

This shift represents more than a regulatory simplification. It marks a change in the logic of sustainable finance: from explaining sustainability claims to evidencing them.

The central question for investors, analysts, regulators and product manufacturers is therefore not only what a product says about sustainability, but what **evidence supports that claim**.

2 - From Disclosure to Evidence

SFDR 1.0 significantly improved transparency, but it also revealed structural limitations. Market participants faced complex disclosure templates, interpretative uncertainty, data gaps, inconsistent definitions and difficulties in aligning SFDR with other parts of the EU sustainable finance framework, including the Taxonomy Regulation, CSRD, ESRS and MiFID II.

The use of Article 8 and Article 9 as de facto labels created expectations that the framework itself was not designed to satisfy. Investors often interpreted these references as indicators of sustainability quality, even though the underlying criteria were not sufficiently harmonised for labelling purposes.

SFDR 2.0 seeks to address this mismatch by creating clearer product categories with minimum requirements. The reform aims to make sustainability claims more disciplined, reduce greenwashing risk and improve the usability of information for end-investors.

Yet shorter disclosures do not automatically create better understanding. New categories do not automatically create trust. The credibility of SFDR 2.0 will depend on the quality of the evidence behind the categories.

The key test can be summarised as follows: **Can SFDR 2.0 help the market say less, but prove more?**

3 - Product Categories: A New Architecture for Sustainable Products

The proposed SFDR 2.0 framework introduces three core product categories.

Transition products (article 7, new category) are designed to support investments in undertakings, economic activities or assets that are not necessarily sustainable today, but that contribute to a credible transition towards sustainability. This may include investments linked to transition plans, science-based targets, Taxonomy-aligned activities, climate benchmarks, credible engagement strategies or portfolio-level transition objectives.

ESG Basics products (article 8) are designed for products that integrate sustainability factors beyond the consideration of sustainability risks, without necessarily pursuing a transition or

sustainable objective. This category may cover broad investment strategies where ESG factors are integrated through ratings, sustainability indicators, stronger governance or other sustainability-related criteria.

Sustainable products (article 9) are designed for products investing in sustainable undertakings, sustainable economic activities or other sustainable assets, or assets that contribute to sustainability. This category is expected to represent a stronger sustainability claim and therefore requires more robust evidence and safeguards.

Across categories, SFDR 2.0 introduces a logic of minimum coverage, minimum exclusions and stronger claim discipline. Whilst there appears to be good clarity regarding the exclusions under Article 9, this is not yet the case for Articles 7 and 8. The proposed 70% threshold for eligible investments is particularly important, as it seeks to ensure that the category is not marginal to the investment strategy but embedded in the product's core design.

This may lead to fewer sustainability-related claims in the market. But fewer claims may also be more credible claims. As things stand, it is reasonable to assume that the changes envisaged in SFDR 2.0 are likely to encourage the growth of Category 9, which has so far remained a niche category. However, uncertainty remains as to the impact on Articles 7 and 8. At this stage, we cannot rule out the possibility that Category 7 may prove to be unviable from inception or, conversely, that it will prove to be a success - something we can only hope for, given the immense challenges involved in financing the energy and environmental transition.

4 - Transition Finance: The Credibility Challenge

The SFDR classification was originally intended to cover all sustainability funds and thus the three pillars of Environment, Social and Governance. However, ongoing negotiations are making it increasingly clear that SFDR 2.0 is set to take an **environmental/climate focus**, particularly through the lens of transition finance and the introduction of a dedicated Transition product category, while social objectives, governance considerations and minimum safeguards remain integral to the overall sustainability framework.

Then, transition finance may become one of the most important dimensions of SFDR 2.0. It is also one of the most difficult to define and supervise. A transition product may invest in companies that are not sustainable today. This is not a weakness of the concept; it is precisely its purpose. The transition requires capital to flow towards high-emitting, hard-to-abate and transforming sectors, provided that the pathway is credible, measurable and accountable.

This creates a delicate balance. **If transition finance is too narrow, it may fail to support the real economy where change is most needed. If it is too broad, it may become a new channel for transition-washing.**

For this reason, the credibility of transition products cannot rely on narrative alone. Transition plans submitted by corporates require **evidence** including:

- clear transition objectives,
- time-bound milestones,
- science-based targets where relevant,
- the EU taxonomy and/or its equivalent for non-EU corporates,

- physical risks,
- portfolio-level KPIs,
- evidence of real-economy outcomes,
- accountability when progress does not occur,
- escalation strategies,
- voting behaviour and stewardship records.

Note that the distinction between portfolio decarbonisation and real-economy decarbonisation is critical. A portfolio may reduce its carbon intensity simply by divesting from high-emitting sectors. A credible transition strategy should also explain how capital allocation and engagement support change in the real economy.

Finally, engagement is central to transition finance, but engagement must have consequences. It should not be treated as a soft claim, but as a disciplined process with objectives, escalation and measurable progress. Priority should also be given to the **quality** of engagement rather than the quantity of engagement, to **minimise the risk of box-ticking** and, on the contrary, to **maximise the impact**.

5 - PAI, ESRS and the Location of Accountability

One of the most important questions raised by SFDR 2.0 concerns the future location of accountability within the EU sustainable finance framework.

The proposal moves away from certain entity-level disclosures, including the current Principal Adverse Impact statement, while maintaining a more targeted role for adverse impact information at product level. At the same time, the CSRD and ESRS are expected to provide a more structured basis for sustainability data at company level.

This shift may reduce duplication and disclosure burden. But it also raises a critical question: **Is accountability being simplified, or merely moved across the framework?**

If entity-level PAI statements are removed, product-level PAI becomes more targeted and ESRS carries more of the sustainability data burden, then coherence between frameworks becomes essential. Investors need to understand whether adverse impacts remain visible, comparable and decision-useful.

The alignment between SFDR indicators and ESRS datapoints will therefore be central. Without operational interoperability, the market may face a new form of fragmentation: less disclosure volume, but persistent uncertainty about definitions, methodologies and data quality.

Level 2 measures will be decisive in this respect. They will need to clarify indicators, templates, the use of estimates, eligible investments, thresholds, exclusions and the practical relationship between product-level disclosures and corporate sustainability reporting.

Simplification will only be successful if it improves accountability, not if it obscures it.

6 - Data, Estimates and Methodological Transparency

SFDR 2.0 depends on data. Product categories, thresholds, exclusions, PAI information and sustainability claims all require reliable, comparable and explainable data.

Yet data remain one of the main vulnerabilities of sustainable finance. The challenges include:

- missing or incomplete company data,
- inconsistent definitions across frameworks,
- limited availability of forward-looking indicators,
- divergent methodologies among data providers,
- reliance on estimates and proxies,
- difficulties in comparing products across asset classes and geographies.

Estimates may be necessary, particularly during transition periods or where reported data are not yet available. However, estimates must be transparent, methodologically sound and clearly disclosed. Otherwise, they may weaken the credibility of product claims.

The growing role of ESG data providers and ratings also raises an important governance question. If product classification relies heavily on external data and methodologies, data providers may become, in practice, de facto rule-setters for sustainable product categories.

The challenge is not simply to produce more ESG data. The challenge is to produce data that are traceable, comparable and decision-useful.

In this context, ESRS, ESAP, the EU ESG ratings framework and SFDR Level 2 should be seen as interconnected elements of the same credibility infrastructure.

7 - Naming, Marketing and Investor Trust

SFDR 2.0 strengthens the discipline around sustainability-related claims. Under the proposed framework, sustainability-related terms in names and marketing communications are expected to be more closely linked to product categories and underlying sustainability features.

This is an important development. In sustainable finance, **language is not neutral**. Terms such as “sustainable”, “transition”, “impact”, “ESG” or “green” shape investor expectations and influence distribution dynamics.

The reform therefore seeks to reduce the gap between product names, investment strategies and actual sustainability features.

For non-categorised products, the new framework may create a more demanding communication environment. Such products may still consider sustainability factors in certain ways, but they will not be able to present sustainability as a central product claim unless they meet the relevant category requirements.

This raises a market question: can non-categorised products become normal and credible, or will the absence of a sustainability category be perceived as a commercial weakness?

The answer will depend on investor education, distribution practices and the alignment with MiFID/IDD II sustainability preferences. If the client conversation remains based on simplistic labels, SFDR 2.0 may simply replace one labelling problem with another. If, instead, it supports

clearer explanations of what a product promises and what it can evidence, the reform may strengthen trust.

8 - Market Implications: Fewer Claims, Stronger Claims?

Recent market analysis suggests¹ that SFDR 2.0 could significantly reshape the European sustainable fund universe. Many products currently classified under Article 8 or Article 9 may not automatically qualify under the new categories.

This should not necessarily be interpreted as a retreat of sustainable finance. It may reflect a shift from broad disclosure-based claims towards narrower, more disciplined product categories.

The potential increase in non-categorised products may be commercially sensitive, especially for distributors and clients accustomed to Article 8 and Article 9 references. However, a more selective framework could improve the credibility of the products that do qualify.

The market will therefore need to adapt in several ways:

- product governance processes will need to be reviewed,
- investment strategies will need to be mapped against category criteria,
- disclosures will need to be shorter but more precise,
- distribution practices will need to reflect the new categories,
- clients will need clearer explanations of what each product does and does not claim,
- data governance and methodology documentation will become more important.

The credibility of SFDR 2.0 will depend not only on regulatory text, but on **implementation discipline**.

9 - Governance, Human Rights, Social Risks and Minimum Safeguards

The sustainable finance debate has often been dominated by climate metrics, and transition finance is currently more mature in climate-related contexts. However, this stronger environmental/climate focus should not be understood as making SFDR 2.0 a purely environmental reform.

Governance practices, minimum safeguards, human rights, social risks and international standards remain essential to the credibility of sustainability claims.

A product cannot be credible if it supports environmental transition while **ignoring governance failures and/or severe social harms**. This is particularly relevant in sectors that are regularly embroiled in controversies relating to business ethics, linked to critical raw materials, supply chains, workforce transformation, digitalisation and AI-enabled business models.

The future of sustainable finance will therefore require stronger integration between environmental transition, social safeguards and best governance practices. Human rights due diligence, OECD Guidelines, UN Guiding Principles, minimum safeguards and ESRS social datapoints should not

¹ Morningstar, *How SFDR 2.0 Could Reshape ESG Fund Flows*, 2026.

be treated as peripheral elements. They are part of the credibility infrastructure of sustainable investment.

The next stage of SFDR implementation should therefore ensure that the governance and social dimensions are not lost in the move towards product categories and simplified disclosures.

10 - From Principles to Practice: Key Questions for SFDR 2.0 Assessment

The following questions are intended to support investors, analysts, asset managers and financial advisers in assessing whether SFDR 2.0 product claims are credible, comparable and decision-useful.

Fig. 1. From SFDR 1.0 to SFDR 2.0: The Shift from Disclosure to Product Categorisation

Topic	Key Questions	Reason
Product category	Which SFDR 2.0 category does the product claim to meet? Is the category central to the investment strategy or only marginal?	Avoid superficial categorisation and ensure that claims reflect the product's core design.
Eligible investments	How is the 70% threshold calculated? Which assets qualify and under which criteria?	Strengthen comparability and reduce interpretative divergence.
Transition credibility	Does the product rely on transition plans, science-based targets, engagement, climate benchmarks, Taxonomy alignment or portfolio-level transition objectives?	Distinguish credible transition strategies from transition-washing.
Engagement evidence	Are engagement objectives, milestones, escalation mechanisms and outcomes disclosed and monitored?	Ensure that engagement is evidence-based and accountable.
PAI and adverse impacts	How are principal adverse impacts identified, measured and addressed at product level?	Preserve visibility of adverse impacts after simplification.
ESRS alignment	Which ESRS datapoints support product classification and sustainability claims?	Improve interoperability between corporate reporting and financial product disclosure.
Data and estimates	What data sources, estimates and methodologies are used? Are assumptions transparent and documented?	Reduce methodological opacity and improve investor trust.
Minimum safeguards	How are human rights, governance, social risks and international standards considered?	Ensure that sustainability claims are not limited to climate metrics.
Naming and marketing	Are product names and marketing claims fair, clear, not misleading and consistent with product features?	Protect investors from greenwashing and misleading sustainability signals.
Client communication	Can distributors and advisers explain clearly what the product promises, what it does not promise and what evidence supports the claim?	Support informed client decisions and MiFID II/IDD suitability processes.

Source: EFFAS CESG elaboration based on European Commission, SFDR 2.0 Proposal and Impact Assessment, 2025.

Conclusion

SFDR 2.0 represents a decisive moment for European sustainable finance. It is not merely a technical revision of disclosure rules. It is an attempt to rebuild the credibility of sustainable

financial products by moving from broad disclosure to clearer categories, stronger evidence and more disciplined claims.

The reform responds to a market reality: investors need information that is not only available, but understandable, comparable and decision-useful. Product manufacturers need rules that are workable and credible. Regulators need a framework that can be supervised effectively. The market needs protection from greenwashing without undermining the capacity to finance the transition.

The success of SFDR 2.0 will not be measured only by whether disclosure templates become shorter. It will be measured by whether investors understand products better, whether sustainability claims become more disciplined, whether transition finance becomes more credible and whether trust in sustainable investment is rebuilt.

Perhaps the next level of SFDR is not more labels. It is the evidence behind the labels.

The real test is simple: **Will SFDR 2.0 help the market say less, but prove more?**

EFFAS and its ESG Commission remain committed to supporting the financial community through analysis, training and thought leadership. By framing SFDR 2.0 as a shift from disclosure to evidence, this Position Note aims to equip investment professionals with a practical lens to assess product credibility, regulatory coherence and long-term value creation in the next phase of European sustainable finance.

As the voice of practitioners, we can only **call for action**. We call for the ongoing SFDR 2.0 reform to be finalised **as soon as possible**, bringing **clarity**, **simplicity** and **stability**. Any further delay, whether measured in months or years, in its completion and implementation, is highly detrimental given the urgency of sustainability challenges, both social and environmental.

 **For more detailed information** visit the official pages on the European Commission's website: <https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector>

The **EFFAS CESG** was established in October 2007 to facilitate the integration of ESG factors into investment processes. Composed of investment professionals from leading European and global sell-side and buy-side firms, including fund managers, financial analysts, and equity specialists, the CESC has been mandated by EFFAS to achieve several objectives. These include establishing and coordinating EFFAS's position on ESG reporting, measurement, and valuation; consolidating ESG expertise among European investment professionals; extending ESG efforts beyond individual EFFAS member companies; engaging in policy, academic and industry initiatives on ESG issues; organizing European-level conferences on ESG issues; and representing EFFAS in international conferences and projects related to ESG issues. CESC serves as a reference and networking Centre for ESG integration efforts of investment professionals across Europe.

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