

Inside SFDR 2.0: What the Updated Framework Means for Market Participants

November 2025

Clients can rely on ESG Book to provide timely updates and continued access to a regulatory-grade SFDR PAI dataset that reflects the latest policy expectations

Inside SFDR 2.0: What the Updated Framework Means for Market Participants

Background

The Sustainable Finance Disclosure Regulation (SFDR) was first introduced by the European Commission in 2019 and came into force in 2021 as part of a package of legislative measures arising from its Action Plan on Sustainable Finance. The regulation established standardized disclosure requirements for financial market participants to assess the integration of ESG factors at both entity and product levels. Its primary objective was to enhance transparency around sustainability risks in investment processes and enable informed decision-making on financial products.

Following its implementation, the Commission identified significant challenges in the regulation's practical application, with concerns around potential greenwashing and complexity of disclosures. Following its implementation, the Commission identified significant challenges in the regulation's practical application, with concerns around potential greenwashing and complexity of disclosures. In 2023, the EC launched a public and targeted consultation on the effectiveness of the SFDR. This was followed up with further engagement with industry, supervisory authorities, and Member States to determine the future of the regulation with the aim of enhancing efficiency, strengthening investor protection, and meeting market realities.

Based on this assessment, on 20th November 2025, the Commission published the proposed amendments to the regulation which introduces a significantly restructured framework for sustainability-related disclosures and financial product classifications.

SFDR Overhaul *

From a Disclosure Regime to a Fund Labelling System.

esgbook

⊗ Key Removals

- ⊗ Removal of the current **Article 8** (ESG characteristics) and **Article 9** (sustainable investment objective) categories
- ⊗ Removal of "sustainable investment" definition
- ⊗ Removal of "do no significant harm" (DNSH) principle
- ⊗ Removal of entity level principal adverse impact ("PAI") disclosures
- ⊗ Removal of product level **Taxonomy** disclosures

According to leaked SFDR Amending Regulation from 6th November. Official version expected to be published on 19th November 2025.

☑ New Categories

- ☑ **Article 7 – Transition**
At least 70% of assets linked to transition objectives. This can be met where at least 15% of investments are in taxonomy-aligned economic activities.
- ☑ **Article - ESG Basics**
At least 70% of assets linked to investments integrating sustainability factors, measured using credible sustainability-related indicators.
- ☑ **Article 9 – Sustainability Objective**
At least 70% of assets in investments that meet "clear and measurable" sustainability-related objectives. This is considered to be met where at least 15% of investments are in taxonomy-aligned economic activities.
- ☑ **Baseline**
All sustainable funds must exclude investments in controversial weapons, tobacco, and UNGC principles / OECD guidelines violators

Impact investing recognized
Article 7 and Article 9 products can elect to use "impact" in their names, provided concrete conditions are complied with.

Key changes in SFDR 2.0

• New Product Categories

Under the updated version of the SFDR framework, the existing products categories of Article 8 (ESG characteristics) and 9 (sustainable investment objective) have been replaced with the following new product categories:

Category Name	Transition	ESG Basics	Sustainable
SFDR Provision	Article 7	Article 8	Article 9
Description	Products channeling investments towards companies and/or projects that are not yet sustainable, but that are on a credible transition path, or investments that contribute toward improvements	Products that integrate a variety of ESG investment approaches but do not meet the criteria of the sustainable or transition investment categories	Products contributing to sustainability goals such as investments in companies or projects that are already meeting high sustainability standards
Mandatory Exclusions	CTB Exclusions and; • ≥ 1% revenue from hard coal/lignite • Develop new projects for exploration, extraction, distribution, refining of hard coal, lignite, oil or gaseous fuels; • Develop new projects for or don't have plan to phase out from exploration, mining extraction, distribution, refining or exploration of hard coal/lignite for power generation.	CTB Exclusions and; • ≥ 1% revenue from hard coal/lignite	PAB Exclusions and; • Develop new projects for exploration, extraction, distribution, refining of hard coal, lignite, oil or gaseous fuels; • Develop new projects for or don't have plan to phase out from exploration, mining extraction, distribution, refining or exploration of hard coal/lignite for power generation

The new categories aim to give investors improved transparency and clearer insight into the sustainability objectives of financial products. Each category will be subject to a defined set of criteria, including:

- I. A minimum threshold of 70% alignment with the stated objective for the relevant category;
- II. A mandatory list of exclusions, which refers to the exclusions for the Climate Transition Benchmarks (CTB) and Paris-Aligned Benchmarks (PAB), and additional prescribed exclusions;
- III. A prescribed list of eligible investment types.

In addition to the above product categories, the controlled use of “impact” terminology, reserved only for products explicitly pursuing measurable social or environmental outcomes (Article 7 and 9 products), has been introduced. Funds using the term “impact” will be required to disclose measurable outcomes, report on achieved results, and will be subject to enhanced verification or assurance requirements.

Products falling outside the new categories are permitted to voluntarily make disclosures on sustainability in pre-contractual documentation, provided that the information is not misleading. However, they cannot use sustainability-related information in fund names or marketing communications and make sustainability a central element of precontractual disclosures.

• **Simplified Disclosure Requirements**

Under SFDR 2.0, financial market participants will no longer be required to make disclosure of principal adverse impacts (PAIs) at an entity level or disclose the integration of sustainability risks in remuneration policies on their websites.

However, PAI disclosures will still be required at the product/fund level. As per the proposal, products falling under the sustainable and transition categories will need to identify and disclose the principal adverse impacts of their investments on sustainability factors and explain any mitigation measures to address those impacts.

The regulation retains the established structure for mandatory pre-contractual, website and periodic disclosures for financial products falling within the category of sustainability-related financial products. Financial market participants will be required to publish and maintain information on their websites; however, firms may now satisfy this obligation by providing links to their pre-contractual and periodic disclosures instead of creating separate website content. The most significant change involves template length; new standardized formats for pre-contractual and periodic disclosures will not exceed two pages, representing a reduction from current requirements. Furthermore, taxonomy-related disclosures will only be required for Article 7 and 9 products pursuing an environmental objective.

- **Other notable changes and provisions**

Subject	Description
Exemptions	The new framework provides an exemption from mandatory product categorisation for Closed-ended funds, which are closed to new investment before the new regime comes into force.
Definition: 'Sustainable investment'	The regulation removes the broad "sustainable investment" definition under Article 2(17) in favor of category-specific requirements for sustainability-related products.
Do No Significant Harm (DNSH) and Good Governance	DNSH and Good Governance requirements have been removed. In the proposed version, the assessment of significant harm will be made through mandatory exclusions.
Portfolio management services and investment advice	The updated framework removes portfolio management and investment advisory activities from the scope of the SFDR.
Grandfathering regime	There is no automatic grandfathering provision. However, FMPs can choose not to apply the proposed categorization under the new framework to closed-ended products that were established and distributed prior to the date of application of SFDR 2.0.

Conclusion

The revised version of the SFDR places renewed emphasis on investor protection, mitigation of greenwashing risks, and addresses market inefficiencies by introducing clearer rules governing the use of sustainability-related claims in product names and marketing materials. The new regime also aims to promote consistency across regulatory frameworks by better aligning with the EU Taxonomy and the Corporate Sustainability Reporting Directive (CSRD).

The proposal will now be submitted by the European Commission to the European Council and the European Parliament and will need to pass the EU's legislative process before it comes into force. Once finalized, there will be an 18-month transition period and is expected to come into effect late 2027 or 2028 at the earliest.

Stay Ahead of the SFDR 2.0 Regulatory Curve with ESG Book

ESG Book remains closely engaged with the evolving SFDR landscape, actively monitoring ongoing regulatory discussions and preparing for the release of the updated Regulatory Technical Standards (RTS) in 2026. While the final RTS have not yet been published, we are proactively positioning our product roadmap to ensure rapid incorporation of the forthcoming requirements as soon as they are released. This means clients can rely on ESG Book to provide timely updates and continued access to a comprehensive, regulatory-grade SFDR PAI dataset that reflects the latest policy expectations. This commitment allows our clients to maintain robust compliance, enhance the quality of their disclosures, and operate with confidence in an increasingly sophisticated sustainable finance environment.

Annex of Updated Requirements

Key proposed changes	
Article 8 (ESG characteristics) and Article 9 (sustainable investment objective) categories have been replaced by three new categories	
Removal of “sustainable investment” definition	
Removal of “do no significant harm” (DNSH) principle	
Removal of entity-level principal adverse impact (“PAI”) disclosures but product-level (“PAI”) disclosures will still be required	
New “sustainability-related financial product” categories	
Article 7 – Transition	At least 70% of assets linked to transition objectives . This can be met where at least 15% of investments are in taxonomy-aligned economic activities.
Article 8 – ESG Basics	At least 70% of assets linked to investments integrating sustainability factors , measured using credible sustainability-related indicators.
Article 9 – Sustainable	At least 70% of assets in investments that meet “clear and measurable” sustainability-related objectives . This is considered to be met where at least 15% of investments are in taxonomy-aligned economic activities.
Impact investing recognized: Article 7 and Article 9 products can elect to use “impact” in their names, provided concrete conditions are complied with.	
Baseline: All categories must exclude investments in controversial weapons, tobacco, UNGC principles / OECD guidelines violators, and specified activities generating revenue from hard coal/lignite	

Visit [esgbook.com](https://www.esgbook.com) for more information.