

Asset Management & Investment Funds Update

November 2025

European Commission SFDR 2.0 Level 1 proposal

SFDR 2.0

The European Commission's (**EC**) has published its long-awaited SFDR 2.0 proposal on 20 November 2025. The proposed changes are radical, with a focus on simplification and introduction of 3 product categories.

Transition, ESG basics and Sustainable product categories to replace A8/9 disclosures

The Article 8/9 regime will be replaced by 3 mandatory product categories under new Articles 7, 8, and 9. The continued reference to "Article 8" and "9" is intended to provide some form of continuity for funds currently disclosing under A8 SFDR moving to the new ESG basics category and for funds currently disclosing under A9 SFDR moving to the new Sustainable category. The requirements of the ESMA Fund Name Guidelines have been incorporated into the SFDR 2.0 product category proposals, with some adjustments, e.g. the threshold of investments to be aligned with the stated objective for the relevant SFDR product category is 70% rather than 80% per the ESMA Fund Name Guidelines.

Definition of “sustainable investment” and DNSH removed

The definition of sustainable investment is deleted as is the do-no-significant-harm article. They fall away; however each product category will now include more prescriptive requirements around permitted and excluded investments which means that specified elements of the sustainable investment and DNSH concepts remain.

Product categories

The new categories proposed are:

- Transition (new Art 7)
- ESG basics (new Art 8)
- Sustainable (new Art 9)

Transition+Impact and Sustainable+Impact products

For the first time, a “sustainability-related financial product with impact” is recognised as a product add on to the Transition and Sustainable categories.

Conditions for the ESG basics, Transition and Sustainable product categories

- Mandatory minimum of 70% to be aligned with the relevant objective for the category.
- For Transition products, this 70% threshold will be deemed to be satisfied for products that replicate or are managed by reference to EU CTB or PAB benchmarks. For Sustainable products, the 70% threshold will be deemed to be satisfied by reference to EU PAB benchmarks. Transition and Sustainable products with more than 15% in taxonomy aligned investments are regarded as meeting a sufficient threshold without having to meet the 70% threshold.
- Mandatory exclusions. As per the ESMA Fund Name Guidelines, these exclusions cross reference to the exclusions for CTB and PAB benchmarks. There are additional exclusions for Transition and Sustainable categories related to new fossil fuel developments.
- There is a list of permitted investment types in which a product may invest to achieve the sustainability objectives.
- Transition+Impact and Sustainable+Impact products must satisfy the transition and sustainable product category requirements, respectively, and make mandatory impact-specific disclosures. Only a product satisfying these conditions can use the term “impact” in its name.

See below a detailed comparison of the three proposed SFDR product category requirements.

Product category	ESG basics (new Art 8)	Transition (New Art 7)	Sustainable (new Art 9)
Threshold	70% threshold linked to the proportion of investments integrating the sustainability factors in accordance with the binding elements of the investment strategy of the financial product, measured using appropriate sustainability-related indicator(s)	70% threshold linked to the proportion of investments to meet a clear and measurable transition objective related to sustainability factors, including environmental or social transition objectives in accordance with the binding elements of the investment strategy of the financial product, measured using appropriate sustainability-related indicator(s)	70% threshold linked to the proportion of investments to meet a clear and measurable objective related to sustainability factors and social objectives in accordance with the binding elements of the investment strategy of the financial product, measured using credible sustainability-related indicator(s)
Cannot include in threshold	N/A	Investments in issuances by public sector bodies ¹ (i.e. sovereign, sub-sovereign or supranational issuers) EXCEPT public sector bodies that issue <ul style="list-style-type: none"> • EU Green Bonds OR • use of proceeds instruments so long as the use of proceeds do not fund any activities involved in (i) controversial weapons (ii) the cultivation and production of tobacco (iii) companies that derive 1"% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite or (iv) companies in violation of UNGC principles or OECD guidelines for MNEs 	Investments in issuances by public sector bodies (i.e. sovereign, sub-sovereign or supranational issuers) EXCEPT public sector bodies that issue <ul style="list-style-type: none"> • EU Green Bonds OR • use of proceeds instruments so long as the use of proceeds do not fund any activities related to (i) controversial weapons (ii) the cultivation and production of tobacco (iii) companies that derive 1"% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (iv) companies that derive 10"% or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; (v) companies that derive 50"% or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; (vi) companies that derive 50"% or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO₂ e/kWh or (a) new projects for the exploration, extraction, distribution or refining of hard coal and lignite, oil fuels or gaseous fuels; or (b) new projects for, or do not have a plan to phase-out from, the exploration, mining extraction, distribution, refining or exploitation of hard coal or lignite for power generation or (c) companies in violation of UNGC principles or OECD guidelines for MNEs

¹means central governments or central banks, regional governments or local authorities, multilateral development banks as referred to in Article 117 of Regulation (EU) No 575/2013 of the European Parliament and of the Council^{*1}, and international organisations as referred to in Article 118 of that Regulation

Exclusions

Must apply CTB exclusions 12(1)(a) + (b) +(c) + (d) Commission Delegated Regulation 2020/1818 i.e. exclude investments in (a) companies involved in any activities related to controversial weapons and (b) companies involved in the cultivation and production of tobacco; (c) companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises; (d) companies that derive 1"% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite

WITH THE EXCEPTION OF

Investment in companies issuing

- EU Green Bonds OR
- use of proceeds instruments so long as the use of proceeds do not fund any underlying activities related to controversial weapons, the cultivation and production of tobacco and deriving 1"% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite and provided that the corporate issuer is not in violation of UNGC principles or OECD guidelines for MNEs

Must apply CTB exclusions 12(1)(a) + (b) +(c) + (d) Commission Delegated Regulation 2020/1818 i.e. exclude investments in (a) companies involved in any activities related to controversial weapons and (b) companies involved in the cultivation and production of tobacco; (c) companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises; (d) companies that derive 1"% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite

WITH THE EXCEPTION OF

Investment in companies issuing

- EU Green Bonds OR
- use of proceeds instruments so long as the use of proceeds do not fund any underlying activities related to controversial weapons, the cultivation and production of tobacco and deriving 1"% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite and provided that the corporate issuer is not in violation of UNGC principles or OECD guidelines for MNEs

And also exclude companies that:

- (i) develop new projects for the exploration, extraction, distribution or refining of hard coal and lignite, oil fuels or gaseous fuels; or
- (ii) develop new projects for, or do not have a plan to phase-out from, the exploration, mining extraction, distribution, refining or exploitation of hard coal or lignite for power generation

Must apply PAB exclusions i.e. 12(1) Commission Delegated Regulation 2020/1818 i.e. exclude investments in

- a. companies involved in any activities related to controversial weapons;
- b. companies involved in the cultivation and production of tobacco;
- c. companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises;
- d. companies that derive 1"% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;
- e. companies that derive 10"% or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;
- f. companies that derive 50"% or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;
- 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. **(PAB exclusions)**

And also exclude companies that:

- (i) develop new projects for the exploration, extraction, distribution or refining of hard coal and lignite, oil fuels or gaseous fuels; or
- (ii) develop new projects for, or do not have a plan to phase-out from, the exploration, mining extraction, distribution, refining or exploitation of hard coal or lignite for power generation **(New fossil fuel development exclusions)**

These exclusions do not apply to investment in companies issuing

- EU Green Bonds OR
- use of proceeds instruments so long as the use of proceeds do not fund underlying activities in the PAB exclusions or New fossil fuel development exclusions provided the issuer is not in violation of UNGC principles or OECD guidelines for MNEs

Deemed compliance with threshold + exclusions	n/a	Financial products that replicate or are managed in reference to EU CTB or EU PAB	Financial products that replicate or are managed in reference to EU PAB
Deemed compliance with threshold	n/a	Products invested 15% or more in taxonomy-aligned investments. This replaces the requirement to meet the 70% threshold above	Products invested 15% or more in taxonomy-aligned investments. This replaces the requirement to meet the 70% threshold above
Permitted investments	<ol style="list-style-type: none"> investments with an ESG rating as defined by Regulation 2024/3005 that outperforms the average rating of the investment universe or the reference benchmark; investments that outperform the average investment universe or reference benchmark on a specific appropriate sustainability indicator; investments that favour undertakings or economic activities with a proven positive track record in terms of processes, performance or outcomes related to sustainability factors a combination of investments pursuant to Article 7(2) [permitted investments for transition products] or Article 9(2) [permitted investments for sustainable products] and the investments referred to in points 1, 2, 3 above; other investments integrating sustainability factors beyond the consideration of sustainability risks, provided proper justification is included in the disclosures required below 	<ol style="list-style-type: none"> Investments portfolios replicating or managed in reference to EU CTBs or PABs Taxonomy-aligned economic activities including transitional activities and Taxonomy-eligible economic activities provided they become taxonomy-aligned over a period of maximum 5 (exceptionally 10) years i.e. in accordance with (b) of Section 1.1.2.2 of Annex I Delegated Regulation (EU) 2021/2178 investments in undertakings or economic activities with a credible transition plan as regards at least one sustainability factor at the level of the undertaking or at activity level respectively, proportionate to the size of the undertaking investments in undertakings or economic activities with credible science-based targets that are supported by information ensuring integrity, transparency and accountability investments accompanied with a credible sustainability-related engagement strategy, targeting specific changes with defined milestones and measured with reference to those targets and milestones, and integrating escalation actions in case the expected changes do not happen in combination with any of those referred to in points 1 – 4 or 8 investments pursuant to permitted investments for Sustainable category in combination with any of those referred to in bullet points 1 – 5 above; investments with a credible transition target set at the level of the portfolio such as reduction of portfolio emissions over time; other investments in the transition of undertakings, economic activities or other assets that credibly contribute to the transition, provided proper justification is included in the disclosures required below <p>Where the product aims to meet a clear and measurable transition to climate change mitigation, the credible transition plan must be compatible with the transition to a sustainable economy, the aims of the Paris Agreement and objective of achieving climate neutrality</p>	<ol style="list-style-type: none"> Investments in portfolios replicating or managed in reference to a PAB Investments in taxonomy aligned activities EU Green Bonds investments including co-investments that finance the same undertaking, project or portfolio identified in financing and investment operations benefitting from an EU budgetary guarantee or financial instruments under the EU programmes pursuing E or S objectives investments in comparable assets to those referred to in points 1 – 3 above provided that a proper justification of their high level of performance in terms of sustainability standards is included in the disclosures investments in EuSEF other investments in undertakings, economic activities or assets that contribute to an environmental or social objective, provided that a proper justification is included in the disclosures required pursuant below

2-page Disclosure in prospectus	<ol style="list-style-type: none"> 1. Statement that the product meets the threshold conditions 2. Description of sustainability factors that the financial product integrates 3. Description of the strategy, applicable choice and relevant share of investments, applicable phase-in period for the product to reach 70% threshold in accordance with that set out in precontractual disclosures 4. Sustainability related indicators 5. Statement that the FMP complies with exclusion requirements and any additional exclusions 6. Data sources for 2 - 5 	<ol style="list-style-type: none"> 1. Statement that the product meets the threshold conditions above 2. Description of the transition related objective(s) 3. Description of the transition related strategy to satisfy the threshold, applicable choice and relative share of permitted investments, applicable phase-in period for the product to reach 70% threshold in accordance with that set out in precontractual disclosures 4. Where a product pursues an environmental objective, a statement on whether and the extent to which the 70% threshold is met by investing in taxonomy-aligned investments 5. Sustainability related indicators 6. Statement that the FMP complies with exclusion requirements and any additional exclusions 7. Data sources for 2 - 5 	<ol style="list-style-type: none"> 1. Statement that the product meets the threshold conditions 2. Description of the sustainability-related objectives to which product contributes 3. Description of the strategy, applicable choice and relative share of permitted investments, applicable phase-in period for the product to reach 70% threshold in accordance with that set out in precontractual disclosures 4. Where a product pursues an environmental objective, a statement on whether and the extent to which the 70% threshold is met by investing in taxonomy-aligned investments 5. Sustainability related indicators 6. Statement that the FMP complies with exclusion requirements and any additional exclusions 7. Data sources for 2 - 5
Principal adverse indicators – identification and disclosure		<p>Must identify and disclose the principal adverse impacts of their investments on sustainability factors and explain any actions taken to address those impacts.</p> <p>This requirement can be complied with in full or in part by using appropriate sustainability related indicators.</p>	<p>Must identify and disclose the principal adverse impacts of their investments on sustainability factors and explain any actions taken to address those impacts.</p> <p>This requirement can be complied with in full or in part by using appropriate sustainability related indicators.</p>
Impact² additional disclosures	n/a	<ul style="list-style-type: none"> • the intended impact(s) in terms of specified environmental or social objectives, underpinned by a pre-set impact theory; and • provisions to measure, manage, and report on the desired impact pursuant to point (a), including in terms of investments by the financial product and the contribution of investors in the financial product. 	<ul style="list-style-type: none"> • the intended impact(s) in terms of specified environmental or social objectives, underpinned by a pre-set impact theory; and • provisions to measure, manage, and report on the desired impact pursuant to point (a), including in terms of investments by the financial product and the contribution of investors in the financial product.

²transition or sustainability category product with impact i.e. has as its objective the generation of a pre-defined, positive and measurable social or environmental impact, and with investments directed towards undertakings, economic activities, or other assets which provide solutions to address specific social or environmental challenges

Products investing in a combination of product categories

There is a new provision for financial products that invest in a combination of two or more underlying product categories, such as funds of funds or multi-option products. In the case where investment in categorised products reach the 70% threshold at the level of the portfolio of the investing product, and where compliance with other criteria such as exclusion criteria, is met, those products can themselves be categorised. Provided the appropriate exclusions are met in each case, only products that meet the 70% threshold by investing solely in Sustainable products would be considered Sustainable while those investing across categories would fall either within Transition, if mixing Sustainable or Transition products, or ESG basics if mixing products from any of the three.

Financial products investing in categorised products but not meeting thresholds can include how much they have invested in the categorised products as well as in portfolios managed for clients on a discretionary basis in accordance with the criteria for categorised products.

Fund managers of these combination products can rely on the SFDR disclosures made by the ESG basics, Transition and/or Sustainable products or from the portfolio manager.

Simplification and reduction of disclosures

Transition, ESG basics and Sustainable products will still need to make mandatory pre-contractual, website and periodic report disclosures. However, the EC is proposing significant changes:

- Pre-contractual and periodic disclosures will be maximum 2 pages, as such significantly reduced content requirements.
- New RTS to be developed to specify the templates and mandatory disclosures per each category.
- The pre-contractual template will double as the website disclosure, removing the current duplicative/expanded website only disclosures.

PAI regime removed

The entity-level and product-level Principal Adverse Impact regime is deleted entirely.

Transition and Sustainable products must identify and disclose the principal adverse impacts of their investments on sustainability factors and explain any actions taken to address those impacts. This requirement can be complied with in full or in part by using appropriate sustainability related indicators.

Scope narrowed

Portfolio management and investment advice services are no longer “products” and are excluded from scope in SFDR 2.0.

Closed-ended fund exemptions

Closed-ended funds which have closed before SFDR 2.0 will be exempt from the new product categorisations.

Other notable points

- There is a “no gold-plating” rule – prohibiting NCAs from introducing additional national level requirements – learning the lessons obviously from the current regime.
- The remuneration policy disclosures are deleted.
- SFDR 2.0 will prohibit non-categorised products using sustainability-related terms in their name or marketing materials.
- SFDR 2.0 product categories will appear in the PRIIPs Key Information Document (KID) for retail investors.
- Product level taxonomy-alignment disclosures will be optional only.
- New requirements on data processes and use of estimates. Financial market participants will have the possibility to rely on estimates where granular data is missing, obtained either from external data providers or generated in-house, with transparency toward investors on how this is done in practice.
- No grandfathering for existing SFDR products once SFDR 2.0 is in force.
- The requirements in the existing ESG Ratings Regulation relating to website disclosure about ESG ratings when used in marketing materials have been included in the proposal.

Level 2 measures

The SFDR proposals permit Level 2 measures to provide detail on:

- the three proposed product categories in relation to
 - conditions for investments to contribute to the respective objective of each category including indicators
 - limited permitted deviations from exclusions for the purposes of hedging
 - methodologies to calculate the threshold and conditions for investments
 - templates for the 2-page precontractual disclosure
- the 2-page template for periodic disclosures

The EC rather than the European Supervisory Authorities, will have the power to adopt SFDR Level 2 legislative measures. The ESAs and the Platform on Sustainable Finance will be consulted as part of the process.

Timing and next steps

The EC proposal will now be negotiated by the co-legislators. Subsequent implementing Level 2 measures to determine specific details of the framework will be developed in a second step. The EC envisages implementation with a start up period from 2027 – 2028. We would expect the Level 2 measures to be in place in time for the effective date of SFDR 2.0. There will be no transitional provisions for existing AIFs or UCITS.

Actions for fund managers

Existing funds in scope of the revised SFDR requirements will need to ensure compliance with SFDR 2.0 by its applicable date, when known.

Details of the final product categories will be settled once the final legislation including any relevant Level 2 measures are published. Fund managers will need to undertake an exercise mapping existing SFDR Article 8 and 9 products to the new product requirements to see if they will fall to be classified under the new product categories or whether any changes may need to be made to comply with the new product requirements. Funds disclosing under A8 and A9 SFDR complying with the ESMA Fund Name Guidelines will have already assessed compliance with an 80% threshold and CTB and / or PAB exclusions.

Processes and procedures for the use of data and estimates will need to be reviewed in light of the proposed requirements under the revised SFDR.

Precontractual and periodic disclosures will change. They will reduce to 2 pages and the pre-contractual disclosure will double as the website disclosure.

For funds that will be categorised under one of the three SFDR categories, and that produce a KID, the KID will need to be updated.

Products falling outside of the three categories can refer to sustainable factors, but it cannot be central to the marketing of the fund. Sustainability-related terms are prohibited in product names.

Fund managers required to produce entity-level PAI statements will no longer have to do so. At this stage, it is not clear what will happen in the case of PAI statements which will need to be published between now and the effective date of SFDR 2.0. There will no longer be a requirement to consider PAIs at product level.

Closed-ended funds which have closed before SFDR 2.0 will have to decide if they will avail of the exemption to comply with SFDR.

“Sustainability-preferences” in suitability assessments are likely to be updated to reflect the three new product categories, impacting on distribution processes.

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