

# ALFI POSITION PAPER

ON THE EUROPEAN COMMISSION  
PROPOSAL FOR SFDR 2.0

## ALFI Position

### Executive summary

ALFI supports the European Commission's (EC) ambition to simplify the SFDR framework by reducing administrative requirements, improving clarity for end investors and strengthening the framework's coherence.

We welcome in particular:

- The exemption for funds closed before the application date of SFDR 2.0.
- In principal, the establishment of three main distinct categories.
- The inclusion of "other investments" and "credible engagement strategy" buckets, which allow for greater flexibility and product choice.
- The deletion of the definition of sustainable investment under art. 2(17) SFDR.
- No mandatory percentage of Taxonomy alignment, in light of the Omnibus simplification.
- Recognition of the role of estimates.
- In principal, the shorter investor-facing and simplified website disclosures.
- The removal of certain entity-level disclosures, in particular PAI entity-level disclosure. To reduce operational burden, the removal of the entity-level requirements should apply as soon as possible and preferably before the application date of other SFDR 2.0 changes.
- The deletion of portfolio management and advice from the scope. Nonetheless, the treatment of standardised portfolio management services in the context of MiFID sustainability preferences should be clarified.

However, we would highlight the following key concerns:

- **Product reclassification and market impact:** The introduction of a "positive" contribution requirement as reflected in the narrow list of ESG strategies under art. 8(2) combined with restrictions on ESG-related disclosures for non-categorised products under Art. 6a, risks materially reducing the existing ESG product universe, creating market disruption and undermining the objective of channelling capital towards sustainable investments. For current art. 8 funds, finding themselves in art. 6a is unsatisfactory due to the very limited possibility for ESG disclosures.  
The proposed 10% threshold under Art. 6a may prove difficult to assess and operationalise. Instead a clear disclaimer would be preferred.
- **Scope:** The exemption for closed-ended funds requires clarification, in particular whether such funds may continue to disclose and report under SFDR 1.0 where contractually bound to do so. In addition, we strongly advocate for the possibility of exempting AIFs that are only offered to professional investors or at least proportionally limiting disclosure and reporting requirements. Not differentiating retail and non-retail products should be a lesson learnt.

- **Exclusions:** Excluding sovereigns from the numerator when determining contributions to sustainability and transition objectives does not reflect current market practice or available data methodologies and risks introducing an unintended bias against fixed income strategies. The proposal contains additional exclusions compared to the existing ESMA fund naming GL, not reflecting requirements already applied under these GL, undermining simplification and regulatory coherence.
- **Transition category:** Hard coal and lignite exclusion may disproportionately affect a key transition sector.
- **Art. 9a(1):** It should be clarified that it includes master-feeder structures and not just fund of funds.
- **Eligible investments:** Should explicitly include transition enablers under Art. 7 and SDG-aligned strategies under Art. 9. Outperforming an average rating or reference benchmark should be clarified.
- **Treatment of derivatives:** Should be clarified.
- **Disclosures:** An appropriate balance must be struck between prescribed content and simplification. It should be clarified whether more extensive website disclosures may be provided on a voluntary basis.
- **Alignment and simultaneous application:** Alignment, in particular with MiFID sustainability preferences is essential. Simultaneous application of Level 1, 2 and MiFID/IDD amendments is critical to ensure legal certainty and operational feasibility.
- **Sufficient time:** Is needed to manage the transition to SFDR 2.0.

## 1) General considerations

We support the EC's proposal in Art. 14(3) SFDR that national authorities should not apply additional requirements in order to avoid gold-plating. This would support coherence at European level, enhance supervisory convergence and facilitate cross-border distribution.

At the same time, it is essential that the envisaged simplification at Level 1 is fully reflected in the delegated act to be adopted pursuant to Art. 19b. Level 2 measures should not reintroduce complexity or prescriptive requirements that would undermine the objective of streamlining and proportionality pursued by the revision.

In light of the changes to the CSRD introduced by the Omnibus package, the reliance on data providers to deliver high-quality data will only increase in the future. Therefore, proportionate measures for ESG data providers should be considered in order to promote high-quality and transparent data and ensure symmetry of responsibility. E.g. drawing on existing best practices such as IOSCO recommendations.

## **2) Scope**

Regarding the proposed scope for SFDR 2.0, we positively note the focus on financial market participants that manufacture, manage or make available financial products. The exclusion of financial advisers and portfolio managers should simplify compliance and clarify responsibilities.

While we welcome the exemption provided for closed-ended funds created and distributed before the application date of the new SFDR, we suggest adding the possibility of an exemption for AIFs that are only offered to professional investors (as reflected in the preparatory work). At a minimum, disclosure and client reporting requirements for such AIFs should be limited on a proportional basis, given the limited added value for professional investors. In addition, the wording concerning the possible exemption of closed-ended funds from “the Regulation” requires clarification. It should be expressly clarified whether such funds may continue to disclose and report under SFDR 1.0 where they are contractually bound to do so by investors.

We acknowledge the EC’s intention to introduce minimum requirements within the SFDR 2.0 categories to enhance market consistency and investor clarity. However, the revised framework must carefully manage the transition for the large number of existing funds currently disclosing under Art. 8 and 9, which represent a significant share of the EU market.

The transition to the new categories should not result in disproportionate market disruption or investor confusion. If the revised criteria are set too restrictively, this may materially reduce the existing ESG product universe (Art. 8 and 9 under SFDR 1.0) and undermine the objective of channelling capital towards investments with ESG characteristics. In particular, many current Art. 8 funds applying exclusion-based strategies may struggle to meet the requirements of the ESG Basics category while simultaneously being constrained by the limitations under Art. 6a regarding ESG-related disclosures. This interaction could have unintended adverse consequences for such products and their investors.

Regarding Art. 9a (1), further clarification is required. While funds of funds appear to be covered by Art. 9a (1), the wording creates uncertainty as regards master-feeder structures. In particular, the reference to financial products that “combine” categorised financial products, expressed in the plural, may be interpreted as excluding investment in a single master fund. It should therefore be clarified whether, under SFDR 2.0, a feeder investing in a master categorised under Art. 7, 8 or 9 may itself qualify under Art. 9a, or whether it automatically benefits from the category of the master. Master-feeder structures should be expressly addressed to ensure consistent treatment and legal certainty. In addition, the possibility of having a consolidated reporting only at the master level could be envisaged, if certain requirements are met (such as the use of the same category).

## **3) Categories**

### **a) Overall considerations**

We appreciate in principle the proposal of three distinct categories, including a transition category, which should support clearer, more objective and more comparable disclosures. The inclusion of

“other investments” and “credible engagement strategy” buckets appropriately allows for greater flexibility and product innovation, provided adequate justification and safeguards are maintained.

However, the articulation of the categories should not create conceptual overlap to the extent it would cause ambiguity for investors.

In this regard we would like to reiterate the need to perform investor / consumer testing of the proposed categorisation system, to ensure the final products are not ambiguous for end investors. In the same vein, there should be no ambiguity for asset managers, when assessing the appropriate disclosure template to use.

We support the foreseen phase-in periods to meet the thresholds. In addition, closed-ended categorised funds should be permitted to deviate from the qualifying criteria during their wind-down phase, when investments are being realised, in order to reflect the lifecycle of such products.

As currently drafted, SFDR refers specifically to EU Green Bonds as permitted investments under the Transition and Sustainable categories (provided the exclusion criteria are met). However, the EU Green Bond label is relatively narrow, particularly for investments in other jurisdictions. SFDR 2.0 should therefore also refer to comparable international market standards, such as the ICMA Green, Social, Sustainability and Climate Transition Bonds, including where issued by public sector bodies, in order to better reflect market practice and avoid unintended geographic bias.

The proposal allows, but does not mandate, the use of the EU Taxonomy for product categorisation. This is a welcome flexible approach, given the current limitations in scope, granularity and data coverage of the Taxonomy. It could be clarified that the 15% Taxonomy alignment threshold for use of proceeds instruments should be assessed on a look through basis.

Furthermore, the text aims to align SFDR disclosures with CSRD/ESRS reporting requirements, enabling FMPs to source sustainability data from corporate disclosures. While this is strongly supported, care must be taken to address potential data gaps resulting from the reduction of ESRS data points (see point 4 below).

#### **aa) Use of sovereigns**

We note in recital (22) the EC’s view that there are currently no comprehensive metrics for gauging the sustainability of general-purpose sovereign, sub-sovereign and supranational debt issuances. Investments in such debt issuances should therefore, according to the recital, be excluded from counting towards the contribution of financial products to sustainability- or transition-related objectives (i.e. be excluded from the numerator).

However, this position does not reflect current market realities or established industry practices, nor does it fully take into account information made available by data providers that enables the assessment of sovereign contributions to such objectives. The proposed exclusion would create material obstacles for funds in the transition and sustainable categories, in particular in achieving the 70% thresholds. For fixed income mandates, sovereign bonds may constitute a substantial, and in some cases predominant, component of sustainable investment strategies. Excluding sovereign

bonds would mean that, in practice, only corporate fixed income strategies could qualify for the transition or sustainable category, thereby introducing an unintended asset class bias.

We therefore recommend that sovereign debt issuances be included in the numerator when assessing contributions to sustainability- or transition-related objectives, in order to reflect established market practices and preserve asset class neutrality. This would also support investments in emerging markets, where sovereign exposure is often central to sustainable investment strategies.

To enhance standardisation and account for methodological robustness and credibility, reference could be made to existing sovereign-specific frameworks, such as the ASCOR framework and the Net Zero Investment Framework Implementation Guidance for Sovereigns.

## **bb) Exclusions**

We note that the exclusions proposed for the three categories do not reflect the exclusions already applied under the existing ESMA fund naming Guidelines, but contain additional exclusions. While we understand that the existing Guidelines shall be revoked, which we support, we are concerned about the additional exclusions suggested for the ESG basics category (notably coal-related) and the fossil fuel, hard coal, gas-related and lignite exclusions proposed for the Transition category (while no viable alternatives would exist at the moment). It is essential to maintain a balanced approach that enables credible ESG strategies while avoiding overly restrictive criteria that would unduly constrain product development in the EU single market. Currently, more than half of EU funds are Art. 8 funds. Introducing additional exclusion criteria beyond those already embedded in market practice and supervisory expectations would increase complexity, create implementation challenges and undermine the objective of simplification.

Such exclusions may also prove difficult to operationalise given current third-party ESG data availability. Moreover, for the transition category, excluding high-emitting sectors may be inconsistent with the policy objective of supporting economy-wide transition.

For these reasons, reflecting the currently applied PAB/CTB exclusions represents a coherent and proportionate approach for the three categories. Such alignment would enhance regulatory continuity with the ESMA naming guidelines, reduce data challenges and avoid creating an overly complex exclusion framework that may be difficult for investors to understand.

In addition, for the avoidance of doubt, to the extent that the additional coal-related exclusions are retained in respect of the Transition category, it should be clearly stated that exclusions apply at project level.

While we support the establishment of dedicated rules concerning hedging purposes in the delegated act, clarification should also be provided on the treatment of efficient portfolio management techniques to ensure consistent application across product categories.

## **cc) Financial derivative instruments**

The proposal does not provide sufficient clarity regarding the treatment of financial derivative instruments within the different categories. In particular, it remains unclear how derivatives should

be considered for the purposes of meeting the 70% thresholds, applying exclusions and assessing contributions to sustainability or transition-related objectives.

Given the widespread use of derivatives for both investment exposure and risk management purposes, the absence of guidance may lead to inconsistent interpretation and supervisory divergence. Clarification should therefore be provided, either at Level 1 or in the delegated act, on the treatment of derivatives, including the distinction between hedging, efficient portfolio management and synthetic exposure strategies. The treatment of derivatives has been and continues to be a source of legal uncertainty and SFDR 2.0 is an opportunity to provide some much-needed clarity on this point. However, there should be close industry consultation given the complexity and implications.

## **b) Transition category**

We welcome the introduction of a Transition category, as it addresses the need to recognise funds investing in assets that support the transition to a more sustainable economy. It supports capital allocation to progressive improvements beyond decarbonisation.

However, greater precision is required in defining the applicable criteria, in particular with respect to credible transition plans (e.g. milestones, escalation tools, transparency expectation), science-based targets and the conditions under which investments are deemed to contribute to transition objectives. Noting that any such detail must be capable of accommodating different asset types and strategies and allow room for innovation.

Eligible investments should explicitly include transition enablers, recognising the role of enabling activities in supporting economy-wide transition pathways.

## **c) ESG Basics category**

Consideration should be given to including a more descriptive element in the category name that links clearly to the underlying criteria, in order to enhance transparency and reduce the risk of misinterpretation. In addition, feedback received by some Members has highlighted that the "ESG" acronym can be controversial when marketing in some third-countries. Whilst managers may voluntarily chose to include the term "ESG" in a product name based on considerations relevant to that product (and in line with the requirements set out in ESMA's fund naming Guidelines) including the term "ESG" in the name of a product category itself may have unintended consequences for the competitiveness of globally-marketed products that select that new category, or may result in fewer such products electing that category where they may have otherwise done so,. Therefore, we would suggest considering an alternative name for the category which does not include the term "ESG". For example, our members would suggest the following names as possible alternatives: "Responsible", or "Responsible Investing Essentials". In this regard, we would reiterate the need for consumer testing.

In addition, the conditions applicable to investments integrating sustainability factors require further clarification, either at Level 1 or Level 2. In particular, additional guidance is needed on how to calculate the requirement under paragraph (2)(a), whereby investments must comprise, among

others, those with an ESG rating that outperforms the average rating of the investment universe or the reference benchmark.

Any clarification should preserve sufficient flexibility to allow asset managers to apply robust proprietary methodologies aligned with their respective investment strategies, while ensuring comparability and supervisory consistency.

#### **d) Sustainable category**

The EC proposal represents a significant change from the ESMA fund naming Guidelines, which require a “meaningful” investment in sustainable investments for funds with the term “sustainable” in their name, as clarified in the ESMA Q&A. Under SFDR 2.0, current Art. 8 funds with “sustainable” in the name would either need to apply the ESG Basics category (and amend their name accordingly) or increase their share of sustainable investments from the current “meaningful” level to at least 70%, resulting in a material recalibration of existing product positioning.

Similar to the ESG Basics category, further clarification regarding the calculation methodology applicable to this category would be beneficial, in order to ensure consistency and comparability across products.

Eligible investments should explicitly include SDG-aligned strategies, in order to reflect established market practices and thematic sustainability approaches.

#### **4) Use of estimates**

We welcome the flexibility provided regarding the use of estimates and the proportionate approach to documenting such estimates.

However, the proposal remains silent on the quality and governance of data provided by external ESG data providers. This creates a potential asymmetry of responsibility between regulated financial market participants (FMPs) and unregulated data vendors. While FMPs are required to justify and document the estimates they produce, estimates originating from data providers may be relied upon without equivalent regulatory scrutiny.

In addition, supervisory proportionality should be explicitly recognised when assessing FMPs’ documentation of estimates, in order to ensure that compliance expectations remain balanced and risk-based.

#### **5) Disclosures**

We appreciate the reduction of entity-level and product-level disclosures as a step in the right direction. However, given the inherently complex and prescriptive nature of sustainability disclosures, it is essential that the future Delegated Act strikes an appropriate balance between the information required and the objective of simplification.

In this context, it should be clarified whether website disclosures may exceed the proposed two-page limit on a voluntary basis. Voluntary additions may be clearly separated from the required two-pages disclosures.

Level 2 measures should avoid reintroducing complexity that would undermine the streamlining achieved at Level 1.

Regarding disclosures under Art. 6a, products that do not fall within a sustainability-related category should nevertheless be permitted to disclose information on stewardship activities. Stewardship typically concerns long-term value creation and fiduciary oversight, rather than sustainability characteristics as such. SFDR 2.0 should therefore expressly clarify that disclosures relating to stewardship and long-term value creation fall outside the restrictions on sustainability-related disclosures in prospectuses, periodic reports and marketing communications.

The proposed 10% threshold may be difficult to assess and operationalise in practice. As an alternative, a clear and proportionate disclaimer could be used to indicate that the product does not fall within any of the sustainability-related categories. Such a disclaimer should be proportionate to the overall disclosure framework. Sustainability factor disclosures should be factual and not overly prominent.

## **6) Alignment with the overall sustainable finance framework**

To support capital allocation towards sustainable investments, ESG-related products must be clear, comparable and aligned with investors' preferences and risk profiles.

Full applicability of SFDR 2.0 will depend on consistency between its categorisation framework and the assessment of ESG preferences under MiFID II. Alignment should therefore be ensured prior to final adoption of the revised framework. In particular, differences between product categories under SFDR 2.0 and the MiFID II ESG preference framework will need to be carefully addressed to avoid misalignment in suitability assessments.

If portfolio management is no longer within the scope of SFDR on the basis that it constitutes a MiFID service, clarification will be required as to how sustainability preferences should be assessed for clients invested in segregated accounts. In such cases, firms should be able to assess sustainability preferences in a manner proportionate to the characteristics of the segregated mandate, without implying that the mandate meets the minimum standards of an SFDR 2.0 category.

In order to avoid overlapping or diverging requirements and enhance regulatory coherence, we support repealing the ESMA fund naming guidelines once the revised framework is fully operational.

## **7) Labels**

According to Art. 17(2), "This Regulation is without prejudice to voluntary sustainability-related labelling schemes for financial products with features that exceed those in Art. 7, 8 and 9 in terms of specified objectives, investment approaches, governance or transparency requirements." In Europe,

several national and international sustainability labels already apply prescriptive criteria and are audited on a regular basis. Based on Art. 17 (2), it is understood that such labelled funds will continue to operate under their respective schemes, provided that minimum SFDR 2.0 standards are met. However, clarification may be needed regarding the interaction between SFDR 2.0 thresholds and existing label criteria, in order to ensure transparency, legal certainty and consistent supervisory treatment.

## **8) Timing**

The envisaged broad amendments to the existing SFDR framework will require significant time and resources for the industry to manage the transition, including the update of legal documentation, systems and disclosures. An implementation period of at least 18 months should therefore be provided after completion of the full legislative process, including Level 2 measures, i.e. following publication of the delegated act.

In addition, clarification is required regarding grandfathering arrangements for existing products under SFDR 1.0, in particular with regards to ongoing reporting obligations.

As the reduction of entity-level PAI disclosures would significantly lower operational burden and costs, the possibility of applying this simplification as of the entry into force of SFDR 2.0 should be established.

To avoid repeated amendments to disclosures, as experienced during the implementation of SFDR 1.0, the draft delegated regulation should be made available to the industry as early as possible and subject to timely consultation.

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