



SFDR 2.0: towards greater clarity

On November 20, 2025, the European Commission submitted its proposal for revising the Sustainable Finance Disclosures Regulation (“SFDR 2.0”) to simplify the current legal framework, strengthen investor protection and combat greenwashing.

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KEY ASPECTS

- Articles 8 and 9 are replaced as de facto labels by three voluntary categories with common minimum criteria.
- Entity-level disclosures are deleted and product-level disclosures are reduced, which will now have fewer indicators.
- This new proposal will apply in general 18 months after its approval by the European Parliament and the Council.
- Reinforced oversight of supervisory authorities is expected.





Introduction and legal context

On November 20, 2025, the European Commission submitted an in-depth revision of the Sustainable Finance Disclosures Regulation, known as SFDR 2.0 (the “**Proposal**”).

The Proposal replaces the *de facto* use of articles 8 and 9 with three voluntary product categories, simplifies investor information, deletes the disclosure requirements concerning entities, which were duplicated with those in the Corporate Sustainability Reporting Directive (the “CSRD”), and reserves the mentions of ESG for products that meet the common minimum criteria.

In the case of products that are subject to the current regulation, it is mandatory to explain how they integrate the sustainability risks (article 6) and whether they “promote characteristics” that are environmental or social (article 8) or whether they have a “sustainable investment objective” (article 9). They must also detail those commitments in the pre-contractual information and on the website, as well as in the regular reports based on extensive templates. Entities are required to publish their risk and remuneration policies, and those with over 500 employees must issue a statement about the principal adverse impacts.

In practical terms, the market will migrate from the current articles 8 and 9 to a more simple category system that offers greater comparability, less commercial friction, cost saving and strengthening of the safeguards against greenwashing.

Proposal objectives

SFDR 2.0 is based on a clear diagnosis: the current obligations are extensive and complex, articles 8 and 9 have been used as mere formal labels, and retail investors find it difficult to compare ESG-focused products.

The Proposal seeks to re-orientate the current regime to simplify matters for financial market participants (“FMPs”) and to make it more useful for the end investor.

This revision of the SFDR is aligned with the priorities of the Savings and Investment Union and contributes to the broader effort to improve integration of the EU’s financial markets to support productive investment. Specifically, it seeks to boost the integrity of the EU single market for sustainable finance and fight greenwashing more efficiently, reduce the administrative burden for FMPs, encourage greater retail participation and a more efficient allocation of capital, and help to scale up private sustainable finance, as part of deeper, more integrated EU capital markets. It also aligns with the priorities to simplify sustainability regulations. For more information about the EU’s competitive strategy, see [Cuatrecasas Collections | EU Strategy](#).

The Proposal also foresees other adjustments in MiFID II and in the Insurance Distribution Directive (“IDD”), which require FMPs to integrate clients’ sustainability preferences in the suitability assessments for investment advice and portfolio management, ensuring that those preferences are directly aligned with the new categories SFDR 2.0 introduces, thus simplifying the suitability test and the requirements for distribution to retail clients.

Regarding the subjective scope, SFDR 2.0 focuses on those FMPs that create, make available and manage products. Mere advisors are outside of the coverage of the disclosure regulation and their place in the distribution channel will be articulated through MiFID II and IDD.



From articles 8 and 9 to 3 categories

The core element of SFDR 2.0 is the creation of three voluntary categories of products depending on their ESG objectives and levels of ambition:

- (i) The “sustainable category” groups products contributing to environmental and social goals while meeting high sustainability standards.
- (ii) The “transition category” refers to investments in companies and projects that are not yet sustainable, but that are on a credible transition path, or investments that contribute toward improvements in e.g., environment or social areas.
- (iii) The “ESG basics category” refers to products that integrate ESG investment approaches that go beyond mere risk management, but do not meet the criteria of the sustainable or transition investment categories.

The three categories share an operational principle: at least 70% of the portfolio must be aligned with the product’s stated strategy and its performance must be monitored and explained based on appropriate indicators. We highlight that, although SFDR 2.0 establishes a threshold of 70%, the Commission considers it coherent with the guidelines on funds’ names using ESMA’s ESG or sustainability-related terms, even if those guidelines require that the funds invest at least 80% in sustainable products to be able to use terms linked to ESG or sustainability in their names (see Legal Flash| [Guidelines on funds’ names using ESG or sustainability-related terms](#)), due to the stricter qualitative conditions. In other words, although the numerical threshold is different, the general level is calibrated to be at least as demanding. Until SFDR 2.0 is applicable and ESMA updates or clarifies its guidelines, managers must comply with the current guide for fund names as defined. In practical terms, it is recommended to keep internal restrictions at 80% or more in line with ESMA for funds that use terms related to ESG/sustainability in their names, while also preparing proof of compliance of the criteria of 70%, plus exclusions and other requirements of the category according to SFDR 2.0.

Also, in the transition and sustainable categories, the adverse impact that could be generated by the investments must be identified and disclosed, and the actions for mitigating that impact must be explained.

In addition, minimum exclusions are introduced, coherent with the EU Climate Benchmarks and with the ESMA guidelines on the fund names related to sustainability or to ESG principles, such as those referring to tobacco, certain weapons, violation of human rights and, with nuances, significant carbon exposure and exposure to other fossil fuel energies (see [Legal Flash| Guidelines on funds’ names using ESG or sustainability-related terms](#)).

The Proposal expressly deletes the definition of sustainable investment under the SFDR, which had led to many interpretative challenges in recent years. Also excluded from the scope of the regulation are financial advisors and portfolio management.

Simplification also applies to information templates and to the data to be disclosed. Entity-level disclosures are removed in relation to principal adverse impacts, and the correlative obligation regarding remuneration is deleted, which should reduce recurring disclosure costs for entities by 25%. In the case of products, disclosure templates are considerably reduced and are limited by design to a maximum of two pre-contractual pages and, in the case of certain follow-up sections, to one page, with a reduced and useful set of indicators for investors. It is also possible for FMPs to use estimates when granular data is missing, with transparency regarding sources and assumptions, and with the obligation, at the investors’ request, to provide additional information on how the estimates are calculated. Lastly, the obligation on FMPs to share on their websites how they ensure that their remuneration policy is aligned with integrating sustainability risks has been removed.



Interaction with current European framework

Use of the EU Taxonomy becomes voluntary as a valid approach under the transition and sustainable categories. To encourage its adoption, the Proposal establishes that products with at least 15% of assets aligned with the EU Taxonomy (e.g., [EU Green Bonds](#)) are considered to meet the 70% positive contribution criterion in the sustainable and transition categories. However, these products would still need to apply the exclusions required, as well as the requirement to identify and disclose the adverse impacts of the remainder of the portfolio. Likewise, the Proposal also foresees special recognition for products replicating or managed in reference to the EU Climate Benchmarks (i.e., Paris-aligned Benchmarks fall into the sustainable category and Climate Transition Benchmarks fall into the transition category), without having to also check for compliance with the exclusions and/or having to disclose the adverse impacts in each case.

In the case of the CSRD and the European Sustainability Reporting Standards (“ESRS”), the correspondence is straightforward. By eliminating entity-level disclosures in SFDR 2.0, the Proposal avoids duplications and consolidates the CSRD as the primary source of auditable and comparative corporate data. The product indicators under SFDR 2.0 will refer, when applicable, to the ESRS and to a limited selection of indicators already known by the market, which will facilitate data interoperability and reduce compliance costs in the medium term.

Schedule and transitory regime

The Proposal, if approved (which will probably take between 12 and 18 months), will be applied 18 months after its entry into force (20 days after its publication), and its effective entry into force will predictably be delayed until the start or middle of 2028. On that same date, Delegated Regulation 2022/1288 will be repealed, and the new categories, templates and marketing rules will become effective. For products based on insurance, plans and pension products, the application is deferred an additional 12 months from the general date, in recognition of the operational complexity of introducing exclusions and the lower exposure to the ESMA guidelines on funds names.

The transition regime establishes that the closed products created and distributed before the application date of SFDR 2.0 can opt to not apply the new framework. It also clarifies that the SFDR 2.0 categories are compatible with voluntary labeling schemes that are more demanding in transparency or governance.

European supervisory authorities, together with the national authorities, should assess implementation and best practices every two years, paying particular attention to costs and greenwashing cases. The Commission is authorized to adopt, through delegated acts, templates limited in extension, calculation methods and a set of indicators for voluntary use, built on ESRS and on elements already known in the current level 2.

Impact of SFDR 2.0

The first effect of SFDR 2.0 will be self-identification. The migration to three product categories will rearrange the offer and make it easier to compare ESG-focused products. Reserving the mentions to ESG in names and marketing communications for categorized products will reduce confusion for retail investors. FMPs should reflect on their positioning and strategy to adapt to these new categories.

The second effect will be operational. The removal of entity-level disclosures and the simplification of product templates will reduce recurring costs, even if a new adaptation of entities' processes will be required, particularly those funds that had been classified as products under article 8 or 9.

Market integrity is the third pillar. The minimum exclusions and the requirement for coherence between name, strategy and documentation raise the threshold of mentions to ESG and seek to reduce greenwashing and greenhushing, by providing managers with a clearer and safer communication framework. Also, the automatic recognition of the EU Climate Benchmarks offers a direct classification method for climate beta funds and clarifies their positioning on the market.

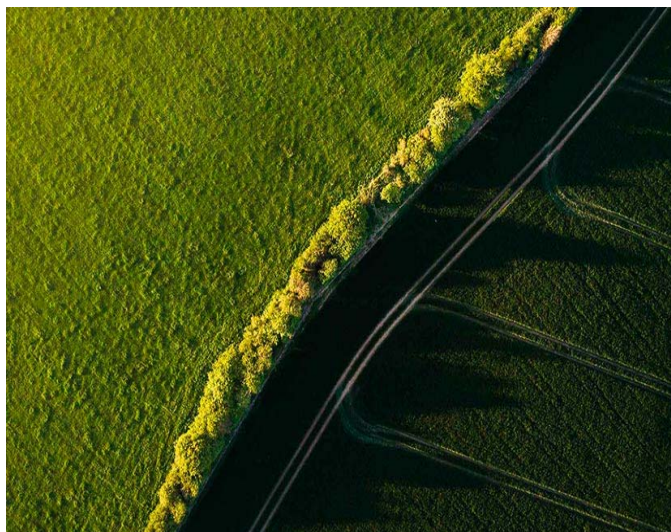


Lastly, an impact on retail distribution is expected. The new categorization, together with the shorter templates, will improve the client experience and, when MiFID II and IDD are adapted, it will be possible to directly link the sustainability preferences to the new categories. In addition, the revision of the regulation of Packaged Retail and Insurance-based Investment Products (“PRIIPs”) incorporates a specific section in the key investor document that identifies the category and summarizes the objective and the indicators, which will assist financial market participants when providing the product explanation to the end client.

Conclusion

SFDR 2.0 marks a paradigm shift towards a more simple and useful framework for investors, and one that is more robust in the face of greenwashing. It organizes the market into three voluntary categories, reduces the disclosure and reporting burden, eliminates duplications of information and clarifies the rules of the game regarding names and marketing.

We can reasonably expect there to be an orderly re-assignment of product labels, with continuity for products that are already adapted to ESMA’s guidelines, net cost savings after the initial adjustment, better comparability for retail investors and a more efficient distribution thanks to the coordination with MiFID II/IDD and the new labeling in PRIIPs.



For additional information, please contact our [Knowledge and Innovation Group](#) lawyers or your regular contact person at Cuatrecasas.

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