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SFDR 2.0 Leaked: Freedom or New Investor Demands for Private Market Sustainability?

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On 6 November 2025, the long-awaited “SFDR 2.0” has finally surfaced in a leak and, as many in the market expected, it represents a major reset of Europe Union’s (“EU”) sustainable finance framework. The proposal, still in draft form from the European Commission, aims to simplify the original Sustainable Finance Disclosure Regulation (“SFDR”). Yet for private markets, and in particular private funds, it could prove both liberating and challenging, depending on how fund managers and investors respond.

Opting Out: Alternative Investment Funds Exclusively Available to Professional Investors

In a significant departure from the current SFDR regime, where all funds must be assessed for their position under Articles 6, 8, or 9, funds offered exclusively to professional investors would be able to opt out of SFDR 2.0 entirely in the current draft.

This flexibility may appeal to fund managers who prefer to stay silent on sustainability in their disclosures or, alternatively, those who wish to communicate their ESG approach through bespoke, non-standard frameworks. Yet it could also invite enhanced complexity via investor-specific demands (which can already be challenging to navigate) without any standardised expectations in place, undermining the Commission’s goal of simplification. Moreover, investors could still insist on alignment with the SFDR 2.0 categories even where a fund has opted out, creating a grey zone of “voluntary compliance”.

The scope of “exclusively to professional investors” also remains unclear, particularly for fund structures with semi-professional investors or retail feeder vehicles, which may blur the boundaries of eligibility for the exemption.

Ultimately, the industry’s reaction will determine whether this opt-out generates freedom or merely replaces regulation with deeper, more complex negotiation, as private markets enter a potential pre-SFDR era of deregulation.

Opting In: The Three New Product Categories

For fund managers of professional investor only funds that decide to stay within the SFDR framework, or for fund managers that permit non-professional investors to invest, SFDR 2.0 replaces the familiar Article 6, 8, and 9 structure with three redefined product categories. Overall, it is a pivot from a disclosure regime to a product categorisation regime. Each product category aims to bring greater consistency on how ESG strategies are described and compared, with defined thresholds and exclusionary criteria.

1. Transition Products (Article 7)

Transition funds must have at least 70% of investments dedicated to a defined and measurable transition objective – such as emissions reduction, social improvement, or other sustainability-related enhancements. They must:

- exclude investments in sectors or activities considered “most harmful” under the EU Climate Transition Benchmark standards; and
- focus on holdings that demonstrate credible transition plans or measurable progress, such as science-based targets, EU Climate Transition or Paris-aligned benchmarks, or investments in transitional economic activities under the EU Taxonomy.

2. Sustainability-Related (or ESG Integration) Products (Article 8)

These funds must apply ESG factors as part of their investment strategy, going beyond pure risk management but without pursuing a distinct sustainability objective. They must:

- allocate at least 70% of investments to assets integrating ESG criteria;
- exclude the same “most harmful” activities as transition products; and
- demonstrate a structured approach to integrating sustainability indicators.

3. Sustainable Products (Article 9)

The most ambitious category from a sustainability perspective, sustainable funds must aim to contribute directly to environmental or social objectives. They must:

- invest at least 70% in sustainable undertakings or economic activities, such as Taxonomy-aligned assets or those linked to EU Paris-Aligned Benchmarks;

- exclude companies that derive revenues from the exploration, extraction, distribution, or refining of coal, oil or gas, and any companies engaged in new fossil-fuel projects; and
- demonstrate measurable outcomes linked to environmental or social goals.

4. All products in scope or opting-in to SFDR 2.0 (Article 6)

If in scope of SFDR 2.0, or opting in where it is a fund offered exclusively to professional investors, the familiar requirement of disclosing on the integration and likely impact of sustainability risks on the returns of the fund will still apply as Article 6 in existing SFDR has been carried over in the draft proposal.

Across all three new categories, fund managers will have harmonised disclosure templates, naming and marketing rules, and restricted use of “impact” terminology (reserved only for products explicitly pursuing measurable social or environmental outcomes) for their funds.

The structure reflects the EU’s intention to create a range of sustainability funds from enabling transition, to those embedding ESG criteria, to those actively delivering sustainability outcomes. However, implementation and its ultimate success will also be based on how these criteria are refined in more detail in technical standards and how investors interpret them in practice.

What’s Gone From SFDR

One of the biggest takeaways is what has disappeared from the current SFDR, which includes:

- principal adverse impacts regime at both entity-level and product level
- portfolio management firms and investment advisers from the scope of SFDR 2.0;
- sustainable investment definition at Article 2(17);
- Taxonomy-related disclosures; and
- remuneration policy disclosures.

Next Steps

While the leaked draft gives a first look at the Commission's direction, the text must still pass through the EU's legislative process, which can be long and politically fraught. As seen with the Corporate Sustainability Reporting Directive, simplification initiatives in the European Union can be far from straightforward.

For private markets, SFDR 2.0 could either be a welcome release from regulatory burden or a new set of expectations that investors will increasingly demand, even when not required by law.

We are keen to hear your feedback on your initial thoughts. You are also welcome to join our **Regulatory Breakfast Roundtable** on 11 November 2025 to hear more, please reach out to ukreg@proskauer.com to secure a place.

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