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SFDR 2.0: Where the Reform Stands

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The EU institutions agree that SFDR should move away from Articles 8 and 9 towards three product categories. They remain divided, however, on two questions that matter particularly to private markets: fossil fuel exposure and an exemption for alternative investment funds offered exclusively to professional investors.

Where the process stands

The European Commission published its SFDR 2.0 proposal on 20 November 2025. It would replace the current framework with three voluntary categories: Sustainable, Transition and ESG Basics. Each category would have prescribed criteria, including a general requirement for at least 70 percent of the portfolio to support the relevant strategy.

The Council of the European Union agreed its negotiating mandate on 24 June 2026. The European Parliament has not yet finalised its position, and the relevant ECON vote has reportedly moved to September 2026. The trilogue cannot begin until Parliament adopts its mandate. From a timing perspective, the Council has proposed extending the application from 18 to a 24 month following entry into force, and the ECON materials support this extension.

For further information in relation to the three positions, please refer to:

- Proskauer article dated 21 November 2025 on the European Commission SFDR 2.0 proposal.;
- Proskauer article dated 8 May 2026 on SFDR 2.0: Draft Parliament position signals direction of travel – implications for private markets; and
- Proskauer article dated 24 June 2026 on the Council position on SFDR reform.

Issue one: Fossil fuel exclusions

The central question is how far the Transition category should accommodate fossil fuel companies that are pursuing a credible transition strategy.

Institution	Position
European Commission	• Uses category specific exclusions. • ESG Basics applies a 1 percent revenue threshold for hard coal and lignite. • Transition adds exclusions for new coal, oil and gas projects and certain coal power businesses without a phase out plan. • Sustainable retains those restrictions and adds thresholds of 10 percent for oil, 50 percent for gas and 50 percent for high carbon electricity generation.
Council of the European Union	• Proposed to soften the Transition exclusion. A fossil fuel company could qualify where at least 20 percent of total capital expenditure is aligned with the EU Taxonomy, aligned expenditure exceeds fossil fuel expenditure, and the company has a clear, measurable and time bound greenhouse gas reduction strategy. • A further principal adverse impact indicator would address fossil fuel exposure.
European Parliament	• Has not agreed a position. • The ECON vote was reportedly moved to September 2026 after political groups failed to agree on proposed carve outs for companies expanding fossil fuel activities and coal power generators with phase out plans.

The policy choice is whether Transition products should exclude businesses that continue fossil fuel expansion, or whether they should support incumbents where investment and a credible transition plan may advance real economy decarbonisation.

Issue two: Professional investor AIF exemption

The institutions also differ on whether alternative investment funds offered exclusively to professional investors should sit outside the new categorisation regime.

Institution	**Position**
European Commission	• Does not provide a broad exemption for funds offered exclusively to professional investors. • The final proposal removed the opt out included in an earlier leaked draft. Article 6a permits only limited disclosure for non categorised products, while sustainability claims remain restricted.
Council of the European Union	• Would permit fund managers not to apply the categorisation provisions to alternative investment funds offered exclusively to per se professional clients within MiFID II Annex II, Section I. • The rationale is proportionality for sophisticated investors and private markets.
European Parliament	• ECON materials continue to cover products aimed at professional investors and do not propose a broad exemption. • The ECON draft prioritises comparability and greenwashing controls over a wholesale opt out.

Why the exemption may not mean less work

- Professional investors may continue to request equivalent information through due diligence, side letters and bespoke reporting.
- Questions remain for mixed investor structures, elective professional clients and funds that may later enter a retail distribution chain.
- Managers may still opt into the categories to support comparability, fundraising and operational consistency.
- Sustainability statements in EU marketing materials would still need to be clear, fair and not misleading.

What happens next

The final position will depend on the mandate adopted by the European Parliament and the subsequent trilogue. For private market managers, the direction towards simplification is welcome, but the scope and practical value of that simplification remain politically contested.

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