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SFDR 2.0: Draft Parliament position signals direction of travel – implications for private markets

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On 4 May 2026, the European Parliament's Economic and Monetary Affairs Committee ("**ECON**") published its draft report (the "**Draft Report**") on the European Commission's proposed overhaul of the Sustainable Finance Disclosure Regulation (SFDR 2.0). The Draft Report includes a draft European Parliament legislative resolution setting out proposed amendments to the European Commission's November 2025 proposal ("**SFDR 2.0 Proposal**"). For further information in relation to the SFDR 2.0 proposal, please refer to our note here.

This alert focuses on five key takeaways for private markets firms from the Draft Report.

1. New disclaimer for non-categorised products

The Draft Report reinforces the European Commission's approach of limiting sustainability-related disclosures for funds that do not fall within SFDR 2.0's new categorisation regime. While such funds may still include limited references to sustainability factors, these must not be prominent and must not feature in marketing communications or product names.

The Draft Report goes further by requiring an explicit disclaimer confirming that the product does not meet EU sustainability standards.

However, the rapporteur's explanatory statement makes clear that this approach is primarily designed with retail investors in mind, noting the need "to provide further clarity to investors on the ESG conditions of their financial product" and to ensure that retail investors understand when they are not investing in SFDR-compliant products. For private markets managers, the practical relevance of the disclaimer seems limited.

2. Increased disclosures on sustainability-related engagement strategies

A new addition in the Draft Report is the requirement to disclose sustainability-related engagement strategies where these form part of the investment approach.

Across the categorised product regime, firms would be required to include “a description of the sustainability-related engagement strategy pursued by the financial market participant, including how that strategy has been implemented in alignment with the sustainability-related objectives of the financial product, or a clear and reasoned explanation of why it does not pursue such a strategy”.

For private markets managers – where engagement is often a central element of value creation plans – this introduces a more formalised disclosure expectation and may require greater documentation of engagement processes and outcomes.

3. Mandatory PAI indicators for categorised products

The Draft Report introduces a new prescriptive approach to principal adverse impact (“PAI”) disclosures at fund-level, in contrast to the flexible approach proposed by the European Commission. The Draft Report is, however, consistent with the SFDR 2.0 Proposal that entity-level PAIs are not required.

For all categorised products, the Draft Report proposes that firms will be requiredto use a set of mandatory PAI indicators, supplemented by additional indicators that are “material for the investment”, with the option to include further voluntary metrics. By contrast, non-categorised products would not be subject to these requirements.

The aim is to improve comparability across products within each category. However, the Draft Report does not specify the mandatory indicators themselves, and the concept of “materiality” for voluntary PAIs is not defined either. This represents a departure from the current SFDR framework, which provides greater flexibility in product-level PAI reporting. It also raises open questions regarding how these requirements would operate in practice, and the extent to which mandatory PAIs – where not aligned with the underlying investment strategy – would provide meaningful disclosures.

The Draft Report provides that the PAI indicators will be set out in a delegated act, meaning that there will remain uncertainty as to which PAIs will be considered material even after SFDR 2.0 Level 1 regulation is finalised.

4. Higher EU Taxonomy alignment for “safe harbour”

The “safe harbour” in this context refers to a quantitative threshold that, if met, provides a presumption of compliance with the relevant product category requirements. In other words, where a fund demonstrates that a specified minimum proportion of its investments are EU Taxonomy-aligned, it can rely on that threshold as a clear, objective basis for meeting the criteria applicable to the relevant transition or sustainable category, without needing to rely more heavily on other qualitative justifications.

The Draft Report proposes increasing the EU Taxonomy alignment threshold used as a “safe harbour” from 15% as set out in the SFDR 2.0 Proposal to 20%. This applies across the relevant transition and sustainable categories, where EU Taxonomy-aligned investments are used to demonstrate compliance with the applicable product criteria.

5. Extension to 24 months before coming into force

The Draft Report extends the application period of SFDR 2.0 to 24 months from entry into force (compared to 18 months in the SFDR 2.0 Proposal).

During this period, new delegated acts and disclosure templates for SFDR 2.0 are expected to be developed. ECON also proposes that the two-page maximum disclosures be “suitable for retail investors”, which raises further uncertainty as to how private market managers will be able to present their sustainability-related investment strategies with sufficient depth, and in an appropriate format, for sophisticated institutional and professional investors.

Next steps

The Draft Report will next be presented to the ECON on 3 June 2026, with a tight turnaround for amendments due by 4 June. A Committee vote is currently scheduled for 15 July (subject to confirmation). Following the ECON committee vote, the Draft Report will be submitted to the full European Parliament for a plenary vote, expected in summer or early autumn 2026. Subject to the Parliament adopting its position, trilogue negotiations between the European Parliament, Council and Commission are expected to commence in September 2026. As such, the proposals remain subject to potentially significant change and there is still a considerable way to go before a final SFDR 2.0 framework is agreed. For further information please reach out to ukreg@proskauer.com

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