



## Investor Alert

A concise treatment of an emergent topic of special interest to our institutional investor clients.

### SFDR 2.0: The Long Awaited 'Simplification' is Here

December 2025

#### From Disclosure Regime to Product Categorization: What Has Changed?

In our February 2024 Investor Alert on the Sustainable Finance Disclosure Regulation (SFDR), we reported on the European Commission's (EC) plan to conduct stakeholder consultations with an intention to revamp the SFDR. Following the assessment of this feedback and the June 2024 Joint European Supervisory Authorities Opinion, on 20 November 2025 the EC published its legislative proposal to revise Regulation (EU) 2019/2088, referred to as "**SFDR 2.0**." The proposed regulation will now proceed through the ordinary legislative procedure in the European Parliament and Council of the European Union. Once adopted, it will apply 18 months after entry into force.

#### What Does the Draft SFDR 2.0 Remove?

We previously highlighted in our June 2023 Investor Alert the challenges Financial Market Participants (FMPs) faced in complying with the vaguely defined criteria. In a simplification effort, the EC proposes eliminating several existing requirements. The proposed reforms aim to restructure disclosures, reduce cost and better align the regime with market practice and investor needs.



Removed Requirement	Previous Obligation	Implication for FMPs
Entity-level PAI disclosures	FMPs with 500+ employees required to publish principal adverse impact statements	No longer required to publish entity-level PAI statements or comply-or-explain statements
Remuneration policy disclosures	Website disclosure on integration of sustainability risks into remuneration policies	No longer required to disclose how their remuneration policies integrate sustainability risks
"Sustainable investment" definition	Article 2(17) definition with complex interpretation requirements	Concept embedded in new category criteria
Product Classifications	Article 6 on products that do not explicitly integrate ESG criteria into their investment strategy Article 8 on products that promote environmental and/or social characteristics. Article 9 on products with a sustainable investment objective	Replaced by new categories: financial products with transition (Article 7), ESG basics (Article 8) or sustainable features (Article 9)
Portfolio management services (provided by an investment firm or credit institution) and investment advice provided by an investment adviser	Within scope of SFDR disclosure obligations	Removed from SFDR scope entirely

Figure 1: Key Requirements Removed Under SFDR 2.0

## What Does SFDR 2.0 Introduce?

The headline change is the introduction of a **three-category system replacing the current Article 8 and 9 classifications**. This new system builds on existing market practices, the ESMA Guidelines on funds' names and the Commission's 2023 Recommendation on transition finance. From highest to lowest ambition, "Sustainable" products target undertakings, economic activities or assets that are sustainable or already positively contribute to environmental or social objectives. "ESG Basics" products integrate sustainability factors into their strategy or design without pursuit of a specific sustainability or transition objective. "Transition" products target undertakings, economic activities or assets that are not yet sustainable but move towards sustainability.



Category	Objective
<b>Transition (Article 7)</b>	Financial products investing in the transition of undertakings, economic activities or other assets towards sustainability or contribute to such transition
<b>ESG Basics (Article 8)</b>	Financial products integrating sustainability factors in their investment strategy beyond the consideration of sustainability risks
<b>Sustainable (Article 9)</b>	Financial products investing in sustainable undertakings, sustainable economic activities or other sustainable assets or contributing to sustainability

*Figure 2: The New Product Categories Under SFDR 2.0*

The new system operates on two main criteria: exclusions applying to the entire portfolio and positive contribution requirements applying to a minimum of 70% of portfolio assets. Each category requires investments to follow an ESG strategy matching the product's claims on a binding basis.

In addition to these categories, financial products that claim to combine products categorized as sustainability-related are subject to Article 9a. Applicants may also disclose how sustainability factors are integrated for products not categorized as sustainability-related financial products, as provided under Article 6a.

## How Can Valoris Help?

Valoris believes that the transition to SFDR 2.0 would represent both a compliance challenge and an opportunity to strengthen sustainable finance practices. Our previous work with clients on the SFDR disclosures positions us well to support FMPs through this transition. The simplified regime reduces certain data collection burdens but also introduces new categorization requirements. Valoris can support you in:

Service Offering	Description
<b>Offering 1: Category Mapping</b>	Assessing which categorization (Sustainable, ESG Basics or Transition) your existing financial products would fall under.
<b>Offering 2: Exclusion Implementation</b>	Developing or updating policies and screening processes to be aligned with the new criteria, notably the mandatory exclusion requirements for each category.
<b>Offering 3: Disclosure Simplification</b>	Transitioning from current disclosures to the simplified ones to ensure compliance.
<b>Offering 4: Data Processes</b>	Strengthening data collection and analysis processes to demonstrate the 70% positive contribution threshold with higher quality, reduced datapoints.

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## Contact Us

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