

# FESE Position on the Sustainable Finance Disclosures Regulation revision

Brussels, 15<sup>th</sup> May 2026

---

## 1. Introduction

FESE fully supports the EU Green Deal, the broader Sustainable Finance agenda, and the allocation of capital toward a more sustainable and competitive European economy. We welcome the European Commission's initiative to recalibrate the Sustainable Finance Disclosures Regulation (SFDR) and to enhance the usability, comparability, and clarity of this framework for market participants. The proposed simplifications, particularly the reduction of unnecessary regulatory burdens, the removal of entity-level PAI disclosures, and the strengthened transparency requirements for ESG-oriented products, represent important steps toward a more effective disclosure regime.

These improvements are especially relevant to ensure that the refined reporting requirements agreed on the Sustainability Omnibus will improve the reporting ecosystem, given the overall shrinkage in data and disclosures available. These upcoming changes should duly consider the importance of access to data via adequate product-level disclosures, in order to limit unintended information/reporting gaps and support market participants in effectively meeting their SFDR transparency obligations. Such measures can support proportionality and ensure that the framework remains workable in practice, provided they are accompanied by clear guidance and consistent implementation.

Against this backdrop, FESE offers some considerations aimed at ensuring that the revised SFDR achieves meaningful simplification without compromising the integrity of sustainability disclosures, while providing the industry with the much-needed ESG data. We underscore the need for a coherent, proportional framework that maintains transparency, while reducing unnecessary complexity.

## 2. SFDR alignment with the wider Sustainable Finance framework

In the context of the competitiveness agenda and the need for meaningful simplification of regulatory burdens, several files central to the EU sustainable finance framework are under scrutiny. Given the strong links between different files (Taxonomy, CSRD, SFDR, etc.), it is important to ensure alignment across the entire framework. Lack of coherence across files can result in a lack of access to adequate data, unintended consequences, and regulatory gaps.

In light of the new changes agreed on the Sustainability Omnibus, the pool of sustainability information and ESG data available to the industry (removal of the transition plans from CSDDD, scope thresholds increased in CSRD, removal of sector-specific standards, etc.) is expected to decrease. As a result, market actors may face challenges in collecting and processing the relevant data for the disclosures under the new SFDR regime. This underscores the need to ensure that adjustments to the SFDR remain coherent with developments in other files. Furthermore, the new SFDR should maintain a proper balance between the need to reduce burden and safeguarding access to reliable and comparable ESG data. FESE therefore appreciates the Commission's pragmatic approach, including the increased flexibility to use estimates where appropriate

These considerations are particularly relevant given the prevailing uncertainty among market participants around questions pertaining to the credibility of transition pathways, diverging interpretations throughout auditing processes, and unsatisfactory access to quality data.

Ensuring coherence across the sustainable finance framework is also critical at Level 2. FESE has consistently advocated for a proportionate treatment of derivatives in sustainability-related calculations. The recently revised Taxonomy Disclosures Delegated Act (under Omnibus I) represents a positive step in this regard, introducing a more proportional and logical treatment for derivatives by clarifying that they “should be excluded from the denominator of the KPIs of financial undertakings” (Recital 9, [here](#)) where a Taxonomy-alignment assessment is not feasible. Reflecting a similar approach in forthcoming SFDR Level 2 provisions would support a more harmonised and predictable regulatory environment. Building on this pragmatic solution, now established in the Taxonomy framework, will help avoid misalignments as the SFDR framework continues to evolve.

### 3. Data quality and threshold compliance

The Commission’s proposal states that new SFDR product categories have to rely on a 70% minimum investment threshold aligned with sustainability or transition objectives, depending on the category pursued. To ensure proper alignment across the industry, prevent greenwashing, and guarantee clarity, market players should have a clear methodology for the calculation of the said thresholds.

To that end, throughout this section, FESE advances a set of recommendations designed to address these risks.

---

#### *FESE proposal 1: Ensure clear rules for the treatment of constituents lacking ESG data*

---

While the proposed 70% threshold offers conceptual clarity, its operational feasibility is significantly constrained by widespread gaps in underlying ESG disclosures. A substantial share of portfolio constituents across asset classes do not report ESG data at all, leaving market participants without clear guidance on how these data gaps should be addressed. The current draft does not specify whether non-reporting entities should be classified as non-compliant, excluded from the denominator, or subject to estimation techniques. Each of these approaches produces materially different outcomes and could render the threshold either unattainable or artificially inflated.

As a result, FESE recommends that the Level 1 text should foresee clear rules on the treatment of constituents lacking ESG data, rather than leaving such fundamental methodological questions to Level 2 or to divergent market practice.

---

#### *FESE proposal 2: Strengthen transparency around data and estimates*

---

We welcome the Commission’s pragmatic recognition that estimation will necessarily play a role in the revised SFDR framework. Today, investors may rely on a range of in-house or third party models, proxies, and assumptions, reflecting differences in preferred methodologies and available corporate. This may result in different estimated ESG metrics for the same underlying entity, which could, in some cases, contribute to variations in product categorisation. Two products with identical holdings could fall into different categories due to differences in underlying methodologies, which could be in-house models

or those of a third-party such as a data provider. In this regard, the EU ESG Rating Regulation brings welcome clarity around rating providers' estimation practices that may support investors' sustainability disclosures

Against this background, SFDR 2.0 should continue to ensure that robust transparency practices govern the production of such investment products, including with respect to transparency about the use of in-house or third-party ESG estimates by financial market participants. As the Commission has recognised in the revised proposal, disclosures on the use of data and estimates, as well as methodologies helps maintain confidence in the framework.

---

***FESE proposal 3: Providing clear rules on the timing and assessment of threshold compliance***

---

The draft framework does not specify how the 70% threshold should be measured over time. Portfolios naturally fluctuate between rebalancing dates, and market movements alone may cause temporary dips below the threshold without any change in strategy or intent. Without clarity, there is a risk of inconsistent supervisory expectations and unnecessary product reclassifications.

With these concerns in mind, we call for explicit guidance on whether compliance is assessed at a fixed point in time, over a rolling average, or at rebalancing dates, and whether temporary deviations trigger immediate consequences or are subject to a defined cure period. Clear rules are essential to ensure proportionality, operational predictability, and consistent application across the market.

---

***FESE proposal 4: Ensure neutral treatment of sovereign bonds as interim solution in the 70% threshold calculation***

---

The treatment of general-purpose sovereign bonds within the SFDR framework also requires consideration. Under the Commission's proposal, sovereign general-purpose bonds are excluded from the numerator of the 70% threshold but remain in the denominator. This asymmetric treatment risks lowering the ratio in a mechanical way, hindering otherwise legitimate investment strategies from meeting the required thresholds, particularly in fixed income and pension portfolios.

Sovereign exposures should not be structurally excluded from the framework, given their central role in financing the green transition and the need to preserve asset class neutrality. However, including sovereigns in the numerator in the absence of a common and robust assessment methodology would undermine the comparability and overall credibility of the regime.

Therefore, as an interim technical solution, we recommend a more balanced, pragmatic and neutral approach that excludes sovereign bonds from both the numerator and the denominator. Such an approach would avoid unintended calibration distortions while preserving the SFDR framework's integrity and would prevent penalising sovereign-heavy strategies while providing an operationally feasible approach in the absence of sufficiently standardised methodologies.

Looking ahead, a conditional inclusion of sovereign exposures could be envisaged once recognised and harmonised assessment methodologies are developed and when minimum standards of data quality and comparability are in place, whether at EU or international

level. The possibility for inclusion should be assessed under a review clause building on the mechanism already provided for in Article 19 of the Commission’s proposal, which foresees a review no later than 36 months after the Regulation’s entry into application. Such a review should be explicitly extended to cover this specific point, providing an evidence-based assessment of the market standards/assessment methodologies existing at the time. This would also be aligned with the EU's better regulation agenda.

#### 4. Product categorisation

FESE supports the proposal to introduce a more explicit and structured product categorisation system. This represents a constructive step towards enhancing the clarity, comparability and overall usability of the SFDR framework. A clearer set of categories would help investors, particularly retail investors, to better understand the sustainability profile and objectives of different products, thereby addressing uncertainties that have emerged under the current interpretation of Articles 8 and 9.

Within this system, FESE sees particular merit in the introduction of a dedicated ‘transition’ category. Such a category is essential to recognise and support the significant share of the economy that is on a credible pathway towards greater sustainability, but may not yet meet the criteria for fully “sustainable” investments. By providing a clear framework for financing companies implementing robust decarbonisation or transformation strategies, a transition category can play an important role in mobilising capital towards the real economy and supporting the EU’s climate and environmental objectives.

---

*FESE proposal 5: Clear criteria definition and exclusion rules on product categorisation*

---

However, for the framework to deliver on its objectives, category criteria must be sufficiently clear and operational. Largely open-ended categories reliant on self-justification risk perpetuating the interpretative challenges the SFDR revision aims to address. For example, proposed formulations such as:

- Sustainability category (g): Investments in other companies/assets contributing to environmental or social objectives, with appropriate justification;
- Transition category (h): Other investments credibly contributing to the transition, subject to adequate justification;
- ESG principles (e): Investments integrating sustainability factors beyond sustainability risks, with appropriate justification;

could lead to divergent interpretations and limit comparability across products. Thus, FESE recommends introducing clearer criteria definitions for each category, complemented by indicative exclusion parameters or non-eligible approaches, to ensure consistent product positioning and strengthen investor understanding and confidence.

#### 5. Focus on SFDR structured products

We wish to bring attention to several issues relating to the treatment of structured products under SFDR. Drawing on the lessons learned from the current SFDR implementation, it is essential to further discuss with product issuers about the treatment of structured products within the SFDR categorisation model.

---

*FESE proposal 6: Ensure that regulatory responsibility for SFDR classification and disclosures remain at the product-issuer level*

---

Structured products differ fundamentally from funds or ETFs in the way capital flows toward underlying assets. They generally consist of a bond component and an option component referencing an underlying benchmark. The investor's capital is predominantly allocated to the bond element rather than to the constituents of the referenced index. As a result, structured products typically provide synthetic exposure to the performance of the underlying assets through the issuer's own debt instrument in line with the EU Green Bond Standard Regulation (Article 16) regarding securitised exposures.

This specific product structure should be duly recognised in the SFDR framework. At the same time, it should not in itself preclude consideration of the sustainability characteristics of the referenced underlying assets. Rather, where such products are assessed under SFDR, regulatory responsibility for SFDR classification and disclosures must remain with the product issuer. Index providers are neither financial market participants nor fiduciaries to end-investors and should not bear regulatory or legal obligations related to the sustainability classification of products referencing their indices.

## **6. Conclusion**

FESE supports the Commission's efforts to simplify and strengthen the SFDR framework and considers the proposed revisions a step in the right direction. However, the success of the SFDR revision will depend on striking the right balance between simplification and the preservation of meaningful sustainability disclosures that are useful to make decisions. Building on the progress already made, it is essential to ensure coherence across the sustainable finance framework, maintain adequate access to ESG data in a more constrained reporting environment, and provide clear, proportionate guidance to support consistent implementation. A well-calibrated and transparent framework will be critical to ensuring that SFDR remains both workable in practice and effective in supporting informed investment decisions and the transition of the European economy.