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Sustainability: Council and Parliament strike deal on simpler transparency rules for financial product

The Council and the European Parliament today reached a provisional agreement on a comprehensive review of the **sustainability transparency framework for financial products** sold in the EU. The amendments will **ease administrative burdens** for market participants and help investors **better understand and compare sustainability-related financial products**

Ultimately, the agreement will facilitate **more investment towards green products**, and in turn help boost the EU's overall sustainability and competitiveness.

The review updates the already existing **sustainable finance disclosure regulation** (SFDR) which requires market participants to disclose how they integrate **social, environmental and governance (ESG) sustainability risks** and **adverse impacts** into their investment offers.

> Europe's financial sector needs simpler and more workable rules. That is what we have delivered. Clearer categories and simpler requirements will make investment products more trustworthy and easier to design and sell. This will facilitate more investment towards green products, and in turn help boost the EU's overall sustainability and competitiveness.
>
> *Simon Harris, Tánaiste and Minister for Finance of Ireland*

Main elements of the agreement

The updated SFDR introduces **three new categories of financial products**, as well as the criteria that should be used to define them:

- **sustainable**: this is the highest category and consists of products that contribute to sustainability goals

- **transition**: this category covers products channelling investments towards companies or projects that, while not yet sustainable, are on a credible path to achieving a transition away from unsustainable activities
- **ESG basics**: this is the basic category which is made up of products that may integrate ESG approaches but do not meet the more stringent sustainable or transition category criteria.

These categories **replace existing concepts** in the framework in order to address fears of '**greenwashing**' – cases in which companies give a false impression of their environmental impacts or benefits. At the same time, the proposed disclosure structure will help financial market participants to significantly reduce their administrative burden.

Categorised products will meet a minimum 70% investment threshold aligned with their chosen sustainability strategy. They must exclude investments in harmful industries and activities. Environmental, social and governance claims in names and in marketing documentation will be reserved for categorised products – this is a key step to fight greenwashing and boost trust in EU sustainable investments. The aim is that the products become clear, comprehensible and widely used in the marketplace, attracting much-needed private investment into sustainable and transition categories.

Principal adverse impacts

To qualify for the sustainable or transition investment categories, financial market participants must identify and disclose the main negative effects their investments may have on the environment and society. These effects, known as principal adverse impacts, must be demonstrated using measurable indicators selected from a common list established by the European Commission.

For the transition category, two of these indicators must relate to fossil fuel use and greenhouse gas (GHG) emissions. Other examples include damage to biodiversity (which with GHG emissions is mandatory for the sustainable category) and poor labour practices. Using common indicators makes it easier for investors to understand and compare the sustainability impacts of different financial products.

Fossil fuel companies in the transition category

To recognise their important role and contribution in transition, investments in companies that are active in the fossil fuel sector may be considered for the transition category if the companies:

- have a clear, time-bound **strategy to reduce greenhouse gas emissions,** aligned with the Paris agreement
- **allocate 20% of their capital expenditure** to economic activities aligned with the EU taxonomy (green classification)
- **increase the share of capital expenditure for EU taxonomy-related activities** over time.

Public sector issuances

General-purpose issuances by public sector bodies make up a significant share of the investment universe for many financial market participants, in particular financial products in the insurance and pension sectors. An established framework of climate and sustainability commitments at EU level makes it possible to meaningfully assess such products' compatibility with sustainability

objectives. Therefore, the new legislation allows for issuances by Union-established bodies to be included in the transition category under certain conditions.

Professional investors

To reduce administrative burdens, financial market participants **may choose not to apply the categorisation provisions to alternative investment funds offered exclusively to professional investors**. These investors do not need the same level of standardised information as retail investors. That said, the final agreement includes safeguards to ensure that retail investors do not indirectly find themselves in possession of such products.

Next steps

Once formally confirmed by both co-legislators, the updated rules will be published in the EU's official journal and will start being applied two years later.

Background

The SFDR has been in application since March 2021. By setting out how financial market participants have to disclose sustainability information, the framework helps investors who want to put their money into companies and projects supporting sustainability objectives to make informed choices. The SFDR is also designed to allow investors to properly assess how sustainability risks are integrated in the investment decision process.

A comprehensive review of the SFDR by the Commission has shown that the current framework results in disclosures that are too long and complex, making it difficult for investors to understand and compare the environmental or social characteristics of financial products. Moreover, the SFDR has effectively been used as a de facto labelling system, causing confusion – particularly for retail investors – and increasing the risk of greenwashing and misselling. As a result, the regulation has not fully met its objectives to help the EU financial sector allocate capital for Europe's sustainable priorities.

- Council agrees position on simpler transparency rules for sustainable financial products (press release, 24 June 2026)
- SFDR Council mandate – legal text

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  EN
- SFDR on EU law tracker

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