



## Sustainability-related disclosures in the financial services sector

This briefing provides an initial analysis of the strengths and weaknesses of the European Commission's impact assessment (IA) accompanying the [proposal](#) to amend [Regulation \(EU\) 2019/2088](#) on sustainability-related disclosures in the financial services sector (SFDR), [Regulation \(EU\) No 1286/2014](#) on key information documents for packaged retail and insurance-based investment products (PRIIPs), and to repeal Commission [Delegated Regulation \(EU\) 2022/1288](#). The proposal was referred to the Committee on Economic and Monetary Affairs (ECON).

### KEY FINDINGS

The impact assessment (IA) underpins the European Commission's proposal to review the Sustainable Finance Disclosure Regulation (SFDR), which aims to enhance the implementation of the EU sustainable finance framework with simpler rules, lower administrative burden and better enforcement. The IA sufficiently explains the need for the revision of the SFDR, drawing on different data sources such as the evaluation and stakeholder consultation. While the problem definition defines and explains the problems and their drivers, some information – for example, on the estimates of the scale of the costs – is scattered across other parts of the IA. The retained policy options, linked to the defined objectives, appear to offer alternative ways to address the defined problems.

The IA substantiates the choice of the preferred options package. It expects the combination of the product-level disclosures, based on simpler concepts and reduced data points, and three product categories with criteria for environmental, social and governance (ESG) claims to provide cost savings and enhance comparability of financial products, reduce greenwashing risks, and facilitate investor protection. The stakeholder consultation shows wide support for reviewing the SFDR instead of repealing it, and for the categorisation system of ESG financial products. However, stakeholders seemed to have divergent views on different measures.

The SME test, conducted as the initiative is relevant for small- and medium-sized enterprises (SMEs), considered that SMEs as financial market participants would benefit from cost savings resulting from the elimination of the entity-level disclosures and other simplification measures.

The IA transparently recognises and describes weaknesses in the analysis. It considers that data availability issues would be mitigated by focusing the concepts on information that is available, widely used and possible to estimate, while recognising risks in using data estimates in the absence of data. The IA explains that for the categorisation options, the efficiency analysis is only qualitative, owing to data limitations and uncertainty of costs relating to establishing product categories.

The final IA, revised based on two Regulatory Scrutiny Board (RSB) opinions, seems to have made efforts to address the RSB's comments. The legislative proposal appears to follow the IA's preferred combination of options.



## Background

This simplification initiative to review the Sustainable Finance Disclosure Regulation (SFDR), included in the [Commission 2025 work programme](#), aims to enhance the implementation of the [EU sustainable finance framework](#) with simpler rules, lower administrative burden and better enforcement. While being part of the broader EU simplification agenda, it helps achieve the objectives of the [European Green Deal](#) and the [savings and investments union](#). The need to simplify the sustainable finance legislation was also stressed in the [Draghi report](#) on EU competitiveness, which found that parts of the EU sustainable finance framework entail significant compliance costs for EU companies.

## Problem definition

[Regulation \(EU\) 2019/2088](#) on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosure Regulation – SFDR), adopted in 2019 and complemented by Commission [Delegated Regulation \(EU\) 2022/1288](#), seeks to increase transparency, combat [greenwashing](#), and protect end-investors by setting detailed entity- and product-level sustainability disclosures regarding environmental, social and governance (ESG) factors. The SFDR interacts with other sustainable finance rules, such as the [Corporate Sustainability Reporting Directive](#) (CSRD) and the [Taxonomy Regulation](#), which help attract private funding to facilitate the transition towards greater sustainability. The IA explains that reporting obligations under the existing SFDR largely depend on the reporting requirements under the CSRD and the Taxonomy Regulation, as the disclosures under the CSRD and the Taxonomy Regulation are due to feed into the SFDR reporting requirements. The IA provides a useful Annex 6, which describes interactions between the SFDR and the sustainable finance framework (pp. 113–119).

At the **entity level**, the SFDR requires financial market participants (FMPs) and financial advisers (FAs) to explain how they integrate ESG considerations into their internal processes. According to the concept of 'double materiality', sustainability risks in their operations, as well as impacts of their investment decisions on the environment and society, must be assessed. In addition, large companies with more than 500 employees are obliged to explain how they consider the principal adverse impacts of their investment decisions on sustainability factors. Disclosures of principle adverse impacts constitute the bulk of entity-level disclosure requirements (IA, pp. 4, 7, 22).

At the **product level**, financial products (e.g. investment funds, insurance-based investment products, pension products) promoting environmental or social characteristics should provide information on how those characteristics are promoted and met. Moreover, the products that have 'sustainable investment'<sup>1</sup> as an objective, must explain that sustainable objective and how it would be attained. The concept of double materiality also applies to product-level disclosures (IA, pp. 4–5, 7).

The European Commission launched an **evaluation** of the SFDR, in accordance with its Article 19, through two public consultations conducted in 2023. The IA openly explains that, because of the different application dates of the SFDR (2021), the Delegated Regulation (2023) and the concurrent implementing measures under the Taxonomy Regulation (2022) and the CSRD (2025), a full ex-post evaluation of their effect was 'premature' and could not be conducted (Annex 11, p. 170). Instead of a full evaluation, the IA presents an assessment of the functioning of the SFDR in Annex 11 of this IA ('back-to-back'; see Better Regulation Toolbox, [Tool #50](#)) (pp. 169–189).<sup>2</sup>

According to the IA, although the stakeholders' feedback showed wide support both for the common EU sustainability disclosure framework and for the SFDR's objectives, a 'large majority' of stakeholders flagged **several limitations** that make rules less effective and efficient. These include unclear key concepts, overlaps and inconsistencies with other parts of the sustainable finance legislation, data availability issues, and limited relevance of certain disclosure requirements. The IA

notes that the stakeholders widely considered the SFDR as a 'complex and costly regime' (pp. 5-7; Annex 11, pp. 169-189).

Drawing on the assessment of the SFDR's functioning and stakeholder consultation, in line with the 'evaluate first principle', the IA defines **two problems (P)** (pp. 9-15).

**P1) Problems for financial market participants (data preparers): difficulty to use complex SFDR rules, uncertainty about compliance, and high costs.**

The IA reports that FMPs find data collection and quantification challenging, due to the inconsistencies in the scope between the SFDR and other sustainable finance rules, and the fact that all FMPs' assets are not subject to EU legislation. It notes that the scope of FMPs' assets exceeds the CSRD's and the Taxonomy Regulation's scope. The IA mentions that between 30 % and 50 % of the average holdings of EU asset managers are entities that do not publish the Taxonomy Regulation- or CSRD-related sustainability data, as they are not subject to the CSRD reporting requirements.<sup>3</sup> The data availability issues have led FMPs to rely on third parties to provide the needed data.

The IA considers that FMPs have difficulties in applying complex SFDR sustainability-related rules and concepts (e.g. sustainable investment), detailed in the Delegated Regulation. Stakeholder feedback also revealed implementing difficulties with the requirement (included in the Delegated Regulation) of taking 'into account principal adverse impact indicators' (entity level) for the 'do no significant harm' (DNSH) test (product level) (see endnote 1). Moreover, in the pension and insurance sectors, some assets cannot be easily assessed against specific metrics in the SFDR and the ESG framework.

Owing to unclear concepts, FMPs have uncertainty about SFDR compliance, which leads to different interpretations of the reporting requirements and diverging approaches by FMPs. The IA also notes that national competent authorities (NCAs) may have different national supervisory expectations (e.g. approach to sustainable investment), and refers to emerging additional national requirements (e.g. minimum criteria for communicating ESG features and ESG national labels).

The IA states that complex SFDR reporting requirements, including overlaps with other pieces of legislation, create 'considerable' burden on FMPs, which consider implementation as 'very costly' and time consuming, and the resources needed as 'disproportionate'. Surprisingly, the IA discusses the costs and burden very briefly and only qualitatively, although this would have deserved a more detailed description. It is worth noticing that the IA provides quantitative cost estimates only when assessing impacts of options and in Annex 3. The recurring costs associated with the SFDR are estimated at €246 million a year, of which €56 million are costs for entity-level disclosures and €190 million for product-level disclosures (IA, pp. 41, 44, 49, 101).

**P2) Problems for investors and distributors (data users): difficulty to understand and compare ESG products, and confusion due to misleading self-categorisation practices.**

Referring to the [EU Platform on Sustainable Finance](#), the IA notes that the length and complexity of the SFDR disclosures do not provide end-investors and distributors with understandable and comparable information on ESG features. In addition, the SFDR concepts (e.g. taxonomy alignment, principal adverse impact) differ from the way retail investors communicate their sustainability preferences. Different interpretations and approaches by FMPs regarding SFDR disclosures, which are due to unclear concepts, make comparing products difficult for end-investors. Moreover, distributors have challenges in understanding SFDR disclosures when implementing the sustainability preferences under the [Markets in Financial Instruments Directive](#) (MiFID) and the [Insurance Distribution Directive](#) (IDD). The IA also explains that, owing to the differences in scope and objectives, the SFDR and other financial instruments such as MiFID and the [Regulation on key information documents for packaged retail and insurance-based investment products](#) (PRIIPs) have different sustainability disclosure requirements.

The IA states that ESG claims in product names and marketing do not in all cases correspond to the products' actual ESG objectives. This is because the SFDR does not include detailed rules on ESG claims on financial products (names or marketing), which has resulted in diverging national approaches against greenwashing. The IA explains that while the [ESMA guidelines](#), established in 2024 to address greenwashing risk, provide minimum criteria for funds using ESG terms in their names, they only partially address the regulatory gap. The guidelines do not cover all financial products that are within the scope of the SFDR and the MiFID/IDD sustainability preferences rules. In addition, the IA points out that the SFDR's disclosure framework is also used as a categorisation or labelling system, as it lacks minimum quality conditions and harmonised criteria that could allow investors and distributors to compare the relative ESG performance.

The IA identifies **four problem drivers (D)**, which all are linked to both problems (pp. 7-9):

- D1: Unclear, lengthy and complex disclosure requirements and ESG concepts (e.g. 'sustainable investment');
- D2: Misalignments and duplications with other sustainable finance rules (e.g. CSRD, Taxonomy Regulation, MiFID and IDD);
- D3: Lack of reliable and comprehensive ESG data and insufficient guidance on estimations;
- D4: Disclosure articles (Articles 8 and 9) are used as categorisation, although the SFDR is not designed as a labelling framework and lacks harmonised standards.

The IA discusses consequences of the problems, such as low investor protection and growing mistrust in products making sustainability claims. It also expects the problems to negatively affect the EU financial sector's ability to efficiently allocate capital for Europe's sustainable prosperity, the international competitiveness of the EU financial sector, and the creation of a true single market for ESG financial products. The IA considers that the problems are likely to persist without addressing the complex and unclear SFDR rules (pp. 15-16).

As required by the Better Regulation Guidelines ([BRG](#)), the IA identifies the problems and their drivers, evidenced by various data sources, and provides a well-referenced problem definition. It also describes how the SFDR and its review relate to other EU sustainable finance rules, such as the CSRD and the Taxonomy Regulation, and the [Omnibus I proposals](#); <sup>4</sup> however, this information is scattered across various sections and Annex 6 (pp. 113-119). It would have benefited the description of data availability issues in P1 if the Omnibus I proposals (see endnote 4) had been explained in that context, as the IA refers to post-Omnibus data availability challenges in other sections (e.g. options, assessment of impacts) and in Annex 6. It notes, for example, that the Omnibus proposals would reduce the scope of the CSRD by limiting the reporting requirement to companies with more than 1 000 employees, and that simplification of the reporting templates would reduce the data points by between 64 % and 89 %. Furthermore, the scale of the SFDR's costs and burden is discussed only briefly and qualitatively, although it would have warranted more detailed description in the problem definition; the quantified estimates can be found in other parts of the IA (pp. 41, 44, 49, 101).

## Subsidiarity / proportionality

According to the IA, the legal basis is Article 114 of the Treaty on the Functioning of the European Union (TFEU). The IA explains that the SFDR can only be simplified and adjusted at the EU level, given that seeking to address the issues by national measures could lead to further differences in national practices, and to fragmentation in the internal market for sustainable finance products. The SFDR review is expected to enhance a more effective functioning of the internal market for sustainable finance, improve transparency for investors, and help scale up private sustainable finance across the EU (IA, pp. 16-17). The IA **does not provide a subsidiarity grid**.

The proportionality aspect is embedded in this simplification initiative and is specifically mentioned in the context of costs (problem definition) and options (pp. 12, 20); however, it is not a criterion in

the comparison of options. At the time of writing, no reasoned opinions were submitted by national parliaments by the [deadline](#) of 6 April 2026.

## Objectives of the initiative

The IA defines two **general objectives** (GOs) (pp. 18):

- GO1: 'to **protect the integrity of the EU single market for sustainable finance** by ensuring requirements which mitigate risks of greenwashing, and to better help investors seize opportunities in sustainability-linked financial products';
- GO2: 'to **boost the competitiveness of Europe's financial sector** by ensuring conditions which make business easier and help to deepen our single market for sustainability-linked financial products and thus to efficiently allocate capital for Europe's sustainable prosperity'.

In addition, it presents two **specific objectives** (SOs), linked to the defined problems (p. 18):

- SO1: 'to **simplify and reduce** the sustainability-related administrative requirements of the framework for financial market participants, as well as to **enhance the coherence** of the framework for their operational needs' (linked to P1);
- SO2: 'to **improve end-investors' ability** to understand and compare sustainability-linked financial products' (linked to P2).

The objectives do not appear to fully meet the Better Regulation SMART criteria (specific, measurable, achievable, relevant, timebound), as they do not have a timeframe and, contrary to the BRG recommendation, operational objectives are not presented, which may weaken the measurability of the objectives. As the monitoring section explains the ongoing processes to analyse certain monitoring areas, and the monitoring plans appear to be in preparation; it is not possible to consider the measurability aspect entirely.

The IA states that the initiative would contribute to the relevant United Nations Sustainable Development Goals ([SDGs](#)) relating to climate and the environment (SDGs 6, 7, 9, 13) and to social progress (SDGs 3, 5) (pp. 17-18, Annex 3, p. 109).

## Range of options considered

The IA explains that, when considering policy options, due attention is paid to the proportionality principle, coherence with the EU sustainable finance framework, Omnibus I proposals and market practices, in particular the ESMA fund names guidelines. According to the IA, the aim is to address the current situation where the SFDR 'allows' for complex and burdensome rules in the Delegated Regulation. Therefore, the focus is to make the necessary changes, covering all essential features, to the SFDR, which could then be complemented by supplementary rules in a delegated regulation (IA, pp. 18-21).

The IA presents the policy options against the baseline, whereby the first option would repeal the SFDR, and other policy options, linked to the specific objectives, would address SFDR-related burdens (two options for both entity- and product-level disclosures) and the need to improve investors' understanding of ESG products (three options to set up a clear categorisation system). Entity-level disclosure options are independent from the categorisation options. Conversely, product-level disclosures are closely linked to the type of categories (IA, pp. 21-38).

Table 1 - Overview of policy options

1. Repeal of the SFDR
<b>Option 1 (Repeal):</b> FMPs would be free to provide entity-level and product-level information regarding sustainability according to parameters and templates of their choosing, based on

demand from their investors, and subject to the application of the ESMA fund name guidelines and other horizontal legal requirements.<sup>5</sup>

## 2. Policy options for alleviating burdens and costs of reporting

**2.1. Changes to entity-level disclosures:** the options focus on addressing disclosures of principal adverse impacts (Article 4 of the SFDR), which constitute the bulk of entity-level disclosure requirements detailed in the Delegated Regulation and a major factor in the problems identified.

**Option 2.1.1. (Significant reduction):** would focus on the most comparable, measurable and material sustainability-related key performance indicators (KPIs). It would revise the scope by focusing on the size of the FMPs' assets under management rather than on the number of employees. Regardless of the scope, this option would involve the SFDR continuing to set entity-level disclosures for smaller FMPs that would be out of the scope of the revised CSRD, in line with the Omnibus I (the reporting obligations would no longer apply to FMPs below 1 000 employees). In addition, this option would reduce the frequency of reporting (every three years instead annual reporting).

**Option 2.1.2. (Deletion of entity-level disclosures) (preferred option):** would focus only on product-level disclosures. The CSRD would determine future entity-level sustainability-linked reporting requirements in a comprehensive, cross-sectoral and coherent way. The largest FMPs (more than 1 000 employees) would continue to disclose sustainability information under the CSRD, and FMPs outside the CSRD's scope could continue reporting on a voluntary basis.<sup>6</sup>

## 2.2. Changes to product-level disclosures

**Option 2.2.1. (Minimal changes):** would retain the bulk of the disclosures set out in the SFDR Delegated Regulation. If categories were introduced, disclosures would need to include a reference to the category and an explanation of the criteria; however, all categorised products would continue to disclose against the wide range of ESG concepts, independently of the category under which they fall.

**Option 2.2.2. (Significant reduction) (preferred option):** would make the consumer-facing disclosures in a delegated regulation shorter and simpler. The disclosures would be tailored to the categories under which products fall. This option would refocus the templates on fewer indicators and sustainability topics that are relevant for investors' decisions. The disclosures should rely on clear, measurable and usable concepts, for which information is either available from investee companies or possible to estimate.

## 3. Policy options for setting up a clear and coherent sustainability-linked product categorisation system

The categorisation would be voluntary, i.e. apply only in the case of explicit decisions by FMPs to offer sustainable, transition and other ESG products, and by investors to seek and select them.

**Option 3.1. (Sustainable,<sup>7</sup> transition<sup>8</sup> and other ESG<sup>9</sup>) (preferred option):** would cover a large majority of ESG financial products. The categories build on the existing criteria under the ESMA guidelines for fund names and current market practices. Owing to the broad market coverage, the categories would play an important role in limiting the products that are allowed to make ESG claims in their marketing documentation and in their names. It would retain the SFDR 'sustainable investment' concept and build on it by underpinning its use with a set of clear minimum requirements. Two criteria for ESG categories include: setting a minimum portion of investment to contribute to the sustainability objective (70/80 % of the product<sup>10</sup>), and clear exclusions of harmful industries and activities in which products cannot invest.

**Option 3.2. (Sustainable and transition):** would build on current market practices and existing criteria under ESMA guidelines for funds names, as option 3.1. This categorisation system would have a narrower market coverage than under option 3.1., as it excludes 'other ESG' and would

cover only the most ambitious products. Option 3.2. proposes the same clarification measures on the concepts and criteria as option 3.1.

**Option 3.3. (Sustainable and other ESG):** would formalise the current Articles 8 and 9 SFDR into a two categories system. Article 8 would be transformed into an 'other LSG' category, and Article 9 would be transformed into a 'sustainable' category. This option does not include a standalone category for transition finance products. As this option seeks to introduce only minimal changes, the concepts and requirements would largely follow Articles 8 and 9.

Source: Compiled by the author, based on the IA (pp. 18-38). The preferred options are indicated in grey.

The IA also explains the **discarded options**, such as non-regulatory measures that would not be sufficient to effectively address the problems or creating more than three categories, which would add complexity and require re-organisation of the market, without a clear added value for investors (IA, pp. 38-39).

Overall, the retained options appear to offer alternative ways to address the problems, although the range of options is limited, with only two options presented to address alleviating burdens and costs. The description of the options is at times quite broad; however, Annex 8 provides more detailed information and illustrative examples of criteria and disclosures of options 3.1. and 3.2., disclosures for the categories under option 2.2., and a suggested approach to estimation to bridge ESG data gaps (IA, pp. 124-151).

When explaining, under the categorisation options, which measures would be defined in the SFDR and in a delegated regulation (p. 34-36), the IA states that 'it is too early to anticipate details on the content of the level 2 measures, as they will be impacted by the negotiations with the co-legislators. However, they will be subject to considerations on the cost-benefit analysis and follow the Better Regulation Guidelines' (pp. 29-31).

## Assessment of impacts

In its assessment of the policy options, the IA considers **economic, environmental and social impacts**, as required by the BRG. The main focus of the analysis is on the assessment of the expected benefits and potential disadvantages of the options for FMPs, investors and supervisors, and on the simultaneous assessment and comparison of the options' **effectiveness** in addressing the defined problems, **efficiency** (costs/cost reduction) and **coherence** between the SFDR and other EU sustainable finance rules (IA, pp. 39-62).

The IA provides quantified estimates on **costs and cost savings**, except for the options relating to the categorisation of ESG products. It explains that this is due to data limitations and uncertainty of costs relating to establishing product categories. Nevertheless, in the summary of relative impacts of the options for setting up a categorisation system, the IA does score options against the efficiency criterion, apparently based on a qualitative analysis (pp. 59-61).

The IA notes that the disclosure requirements can entail indirect positive **environmental, social and fundamental rights** impacts, and it discusses them briefly in each option. It openly recognises the difficulty in identifying concrete merits of the options on these impacts, as there is no clear evidence of the 'extent to which reporting requirements on their own will induce companies to mitigate and avoid their negative impacts' (p. 48). Furthermore, the IA explains that impacts of certain options are linked to KPIs, which are to be defined in a delegated regulation. Nevertheless, it states that, in general, clearer disclosures can facilitate better communication of social, environmental and fundamental rights impacts of financial products (pp. 53-54, 60-61).

The IA does not specifically assess the **digitalisation** aspects, i.e. the digital-by-default principle.

The IA concludes that the **preferred options package** consists of 2.1.2. (deletion of entity-level disclosures), 2.2.2. (significant reduction of product-level disclosures), and 3.1. (three ESG product categories). Based on the analysis and comparison of the options, the IA finds this combination to

be the best choice to efficiently and effectively achieve the specific and general objectives. It argues that it would, for instance, largely simplify and reduce the product-level disclosure requirements by reducing the data points and using simpler concepts. While deleting entity-level disclosures, the largest FMPs would still need to disclose ESG entity-level disclosures under the CSRD. According to the IA, the broad three-category system would provide criteria for products making ESG claims, which would enhance comparability of financial products, mitigate greenwashing risks, and facilitate investor protection. The IA considers that data availability issues would be mitigated by focusing on concepts on information that is available, widely used and possible to estimate (pp. 27, 31-32, 56-64).

In addition to presenting the estimates of costs (partially quantified) and benefits (partially quantified) of the preferred options package in Annex 3 (pp. 103-109), the IA made efforts to calculate the cost estimates for small and medium-sized enterprises (SMEs) and large companies. However, the IA points out that 'results give only indications of potential costs and are to be interpreted with caution as they are based on extremely small samples, in particular for SMEs where the simplification should bring most benefits; the one-off costs might be overestimated as the one/two respondents on which the estimation is based assume a certain minimum fixed amount that needs to be spent to implement the changes that is even higher than the initial one-off costs' (p. 104). According to the estimates, the total one-off costs incurred by SMEs would be €590 million (annualised €69 million), and by large companies €40 million (annualised €5 million). The recurrent costs per year for SMEs are estimated at -€60 million (savings), and for large companies, at -€30 million (savings) (IA, Annex 3, Table 3, p. 104).

It is noteworthy that part of the measures under the options would be defined only in subsequent secondary legislation; therefore, a full assessment covering all measures of the policy options cannot be done. The IA explains that the measures to be included in the secondary legislation would be assessed (cost-benefit analysis) and considered in accordance with the Better Regulation Guidelines (p. 31).

### SMEs / Competitiveness

The IA explains that, as this initiative, included in the [SME filter list](#),<sup>11</sup> is relevant for **small and medium-sized enterprises**, consequently, a four-step SME test was conducted, and presented in Annex 12 (pp. 190-192) in accordance with the BRG (see also the Better Regulation [Tool #23](#)). The IA notes that the initiative has direct relevance for FMPs, of which the 'vast majority' are SMEs, while it is 'less relevant' for SME investees. According to the analysis, FMPs are expected to benefit from cost savings (estimated in Annex 3), and SMEs as investees would benefit, for example, from a simple categorisation system and reduced reporting and compliance costs. The SME test concludes that the elimination of entity-level disclosures would cut burdens by about 25 % of the current costs, and that other simplification measures would contribute to the burden reduction for SMEs towards the 35 % target (p. 192).

**Competitiveness** is embedded in the initiative, as it seeks to boost EU competitiveness by simplifying and clarifying the SFDR, which in its current form entails costs and burdens (IA, pp. 16-18, 48, 61). The IA provides a dedicated competitiveness check (Annex 5, pp. 111-112) as required in the Better Regulation Toolbox ([Tool #21](#)). It expects a positive impact of the preferred options combination on all competitiveness dimensions of costs and price, capacity to innovate, SMEs, and international competitiveness. It notes, for instance, that – as the EU has a dominant global market share for sustainable financial products (estimated by the [Platform on Sustainable Finance](#) at 84 % of global sustainable fund assets), the 'categorisation regime can be expected to become a de facto global standard and contribute to attracting inward investment flows into the EU' (IA, pp. 61, 111).

### Simplification, burden reduction and other regulatory implications

According to the IA, this simplification initiative's preferred options package would bring annual cost savings of €56 million from the deletion of entity-level disclosures and of €55 million from

simplification measures concerning product-level disclosures. The IA explains that it was not possible to provide cost estimates for establishing the categorisation system due to the lack of sufficient quantitative evidence (p. 64).

The IA clarifies that the 'quantifiable costs of this initiative are categorised as administrative costs from a Better Regulation perspective as they link to costs for disclosures to the public' (p. 64). It presents the calculations, including the 'one in, one out' estimates, in Annex 3 (pp. 83–109). The IA expects the preferred options package to generate a net reduction of €12 million in administrative costs per year (p. 109).

## Monitoring and evaluation

The IA lists ongoing or planned monitoring and assessment areas ('established processes underway') by the Commission, the European Supervisory Authorities (ESAs) and the Platform on Sustainable Finance, including some timeframes for these assessment plans. They concern costs and cost reduction for industry greenwashing, capital flows to sustainable investment, and understanding of EU retail investors. The description in the monitoring section suggests that the monitoring plans are still being prepared; it provides no concrete list of specific indicators for the monitoring areas, nor does it mention a timeframe for an ex-post evaluation of the revised SFDR (pp. 64–65).

## Stakeholder consultation

As required by the BRG, the IA summarises the broad stakeholder consultation activities in a dedicated Annex 2 (pp. 72–82). After the Commission announced a comprehensive assessment of the SFDR framework in December 2022, stakeholders' feedback was gathered in an open public consultation (OPC) and a targeted consultation in 2023. The [OPC](#) on the existing disclosure framework received 51 replies from FMPs, FAs and non-governmental organisations (NGOs). The [targeted consultation](#) collected views from FMPs, investors, NGOs, public authorities and NCAs on possible options to address the problems (324 respondents, of which 128 were SMEs). The consultations ran between 14 September and 22 December 2023, thus meeting the Better Regulation requirement of 12 weeks. In the [call for evidence](#), running from 2 May to 30 May 2025, the initiative received 195 replies (e.g. from companies, NGOs and national authorities).

In addition, the IA mentions engagement with the Member State expert group, technical workshops and roundtables with stakeholders; two briefings from the Platform on Sustainable Finance on the [implementation of the SFDR](#) and the [categorisation of products](#); the joint opinion from the ESAs on [setting up a categorisation system](#); and contributions from the [European Fund and Asset Management Association](#) (EFAMA) and the [Financial Services User Group](#). It also refers to the [study](#) conducted for the European Parliament's ECON committee on the SFDR.

The IA provides hyperlinks to the stakeholder consultation documents, including a [summary report](#) of the open and targeted consultations. Moreover, it provides a breakdown of stakeholder groups, and integrates their views into the different parts of the IA; however, the views per stakeholder group are not always clearly indicated. According to the IA, reviewing the SFDR was generally preferred to repealing it. Most FMPs and FAs supported deleting entity-level disclosures, while most NGOs opposed it, and NCAs' views were split. 'A large majority' supported simplifications to product-level disclosures, and considered that disclosures should be restricted to meaningful, comparable and understandable indicators. The IA mentions that a 'large majority' supported a categorisation system for ESG financial products; however, the feedback in the open and targeted consultations showed either divergent views on the criteria on which the categories should be based (Articles 8 and 9 of the SFDR) or new criteria. The IA states that in the call for evidence, 'most respondents' (not specified) supported establishing a three-category system.

## Supporting data and analytical methods used

The IA draws on various data sources in its analysis. Examples include: the evaluation of the implementation of the current SFDR (although not a full ex-post evaluation), stakeholder consultation, ESMA reports,<sup>12</sup> studies,<sup>13</sup> a [Eurobarometer survey](#) (2022), and a [Strategic Foresight report 2023](#). The Commission also analysed existing surveys/studies on retail investors' sustainability objectives and understanding and summarises the findings in Annex 10 (pp. 157-168).

The description in Annex 4, which usually explains the methods used, is exceptionally limited, providing only a reference to the EU standard cost model ([Tool #58](#)), and stating that the stakeholders' feedback has provided data to perform the cost estimates (p. 110). Nevertheless, the IA does explain the calculations of costs and benefits of the preferred option in Annex 3 (pp. 83-109).

The IA transparently admits limitations and 'considerable uncertainty' in assessing one-off costs of the introduction of a product categorisation system, owing to the lack of sufficient evidence (pp. 59-60, 191). Another challenge relates to assessing the options' environmental, social and fundamental rights' impacts, as there is no clear evidence of the 'extent to which reporting requirements on their own will induce companies to mitigate and avoid their negative impacts' (p. 48). The IA refers to risks in using data estimates in absence of data, and provides some principles and guidance in using them in Annex 8 (pp. 149-151). It also mentions that the ESAs could be 'tasked to test and confirm what type of sustainability data is feasible to reliably obtain and estimate' (p. 37).

## Follow-up to Commission Regulatory Scrutiny Board opinion

The RSB gave a negative opinion on a draft IA on 2 July 2025, followed by a positive opinion with reservations on a revised draft IA on 8 October 2025 (see the [RSB document](#) with both opinions). In its second opinion, the RSB pointed to several remaining shortcomings, and stressed that the IA should better assess how the revised SFDR would ensure the comparability between financial products and the risks relating to the use of estimates. It also called for an assessment of the risks of greenwashing. The RSB pointed out that the options, including the repeal option, should be sufficiently specified and duly assessed against effectiveness, efficiency and coherence. In the assessment of options, costs and benefits should be estimated, and the proportionality principle should be considered. Moreover, given that the full assessment of policy options depends on the secondary legislation, the IA report should explain how main alternatives and their impacts will be assessed for such subsequent delegated legislation.

As required by the BRG, the IA explains in a dedicated Annex 1 how the RSB's points were addressed (pp. 66-70). The IA seems to have made efforts to address the RSB's comments. Regarding the categorisation options, the efficiency analysis was only qualitative due to data limitations.

## Coherence between the Commission's legislative proposal and IA

The legislative proposal appears to follow the preferred options package. The proposal specifies some elements; for example, regarding the criteria for ESG claims in the product categories, the positive contribution criteria are defined as a 70 % threshold, while in the IA, they are indicated as 70/80 %.

### ENDNOTES

<sup>1</sup> Based on the SFDR (Article 2(17)), the IA explains that the concept of 'sustainable investment' is an investment in an economic activity that: (i) contributes to an environmental or social objective; (ii) causes no significant harm to other environmental and social objectives (based on the consideration of principal adverse impacts; indicators included in Annex I of the [Delegated Regulation](#)); and (iii) invests in companies with good governance practices (IA, p. 31).

- <sup>2</sup> See also N. Hahnkamper-Vandenbulcke with E. Takitzi, [Review of Regulation \(EU\) 2019/2088 on sustainability-related disclosures in financial services](#), EPRS, European Parliament, October 2025.
- <sup>3</sup> The CSRD reporting requirements are specified in [Delegated Regulation 2023/2772](#) (European Sustainability Reporting Standards, ESRS).
- <sup>4</sup> The IA refers to the Omnibus I package proposals (COM(2025) 80 and COM(2025) 81 on corporate sustainability reporting and due diligence requirements). These have been adopted: [Directive \(EU\) 2025/794](#) and [Directive \(EU\) 2026/470](#).
- <sup>5</sup> Such as [Directive \(EU\) 2024/825](#) amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and through better information.
- <sup>6</sup> According to the ESRS or the voluntary sustainability-related information standard, to be adopted as a delegated act (linked to the Omnibus proposal COM(2025) 81) based on the [voluntary standard for SMEs](#) (IA, p. 23)
- <sup>7</sup> 'Sustainable category': investments that contribute to sustainability goals (e.g. climate, environmental or social goals), such as investments in companies or projects that are already largely sustainable meeting specific sustainable standards (IA, p. 27).
- <sup>8</sup> 'Transition category': investments in companies and/or projects that are not yet sustainable but on a credible transition path, or investments that contribute to transition goals (such as climate, environmental or social goals). Transition finance is not recognised under the SFDR, although many products with transition objectives disclose under Articles 8 and 9. The IA explains that the concepts and criteria of this category would reflect current market practices and build on ESMA guidelines (IA, pp. 27-28).
- <sup>9</sup> 'Other ESG': investments that do not meet the criteria of the sustainable or transition investment categories but nevertheless apply credible environmental or social investment approaches (e.g. the use of ESG ratings) (IA, p. 28).
- <sup>10</sup> Regarding these alternatives, the IA mentions that 80 % is a threshold referred to in the ESMA guidelines, and 70 % in the [Financial Conduct Authority labelling rules](#) in the United Kingdom (IA, p. 31).
- <sup>11</sup> Based on the screening by the EU SME envoy network, the SME filter lists forthcoming initiatives that are relevant for SMEs.
- <sup>12</sup> e.g. ESMA, [Final report on greenwashing](#), 2024; ESMA, [TRV Risk Monitor. ESMA report on trends, risks and vulnerabilities](#) and its [statistical annex](#), 2023.
- <sup>13</sup> e.g. J. Fichtner, R. Jaspert and J. Petry, [Mind the ESG capital allocation gap](#), 2024; Morgan Stanley Institute for Sustainable Investing and Wealth Management, [Sustainable Signals. Understanding individual investors' interests and priorities](#), 2024; Schroders, [Global investor study. Global perspectives on sustainable investing](#), 2017.

This briefing, prepared for the Committee on Economic and Monetary Affairs (ECON), analyses whether the principal criteria laid down in the Commission's own Better Regulation Guidelines, as well as additional factors identified by the Parliament in its Impact Assessment Handbook, appear to be met by the IA. It does not attempt to deal with the substance of the proposal.

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