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SFDR Reform: New Labels, Same Greenwashing Risk?

Will Europe's new sustainability product categories finally help individual investors, or simply give greenwashing a new name? As negotiations on the proposed revision of Sustainable Finance Disclosure Regulation (SFDR) move forward, BETTER FINANCE warns that simpler product categories will only work if the claims behind them can be proven.

The proposed Sustainable and Transition categories could be a major improvement for individual investors. But putting a "Transition" label on an investment fund cannot become a free pass for products investing in companies with poor environmental performance, without credible evidence that those investments are actually contributing to change.

If a fund claims that investor engagement is helping companies transition, it should have to show it: What changed? What role did the investor play? And where is the evidence?

BETTER FINANCE is also concerned that an overly broad "ESG Basics" category could recreate the very confusion the reform is supposed to eliminate. A simpler label is of little value if investors still cannot tell what sits behind it.

At the same time, simplification is badly needed. Individual investors should receive short, standardised and comparable information, not pages of technical disclosure that few people can realistically use.

BETTER FINANCE calls on EU policymakers to keep Sustainable and Transition products clearly distinct, prevent ESG Basics from becoming a catch-all category, and require sustainability and transition claims to be backed by verifiable evidence.

A new label is not enough. Investors need to know what is actually inside the box.

Contact

Arnaud Houdmont | Director of Communications
houdmont@betterfinance.eu

Rue d'Arenberg 44, 1000
+32 2 514 37 77
betterfinance.eu