

BETTER FINANCE response to European Commission consultation on the proposed revision of the Sustainable Finance Disclosure Regulation (SFDR)

06 April 2026

Executive Summary

BETTER FINANCE welcomes the European Commission's proposal to revise the SFDR and the move towards a clearer product categorisation framework. This is an important and necessary step towards improving legal certainty, limiting greenwashing, and helping retail investors better understand the sustainability profile of financial products. At the same time, the success of the revised framework will depend on whether it delivers genuinely clear, credible and decision-useful information for end investors.

The revision of the SFDR should ultimately strengthen the credibility of sustainable finance in Europe and rebuild trust among individual investors. To achieve this objective, the framework should ensure that sustainability claims correspond to genuine investment practices and measurable outcomes. Mandatory engagement for transition products, stronger and more comprehensive ESG metrics, and short, clear and standardised disclosures - including pre-contractual templates limited to a maximum of two pages - are key elements to achieving this goal.

BETTER FINANCE calls on the Commission to prioritise investor protection, ensure strong and comparable sustainability criteria, and maintain clear and accessible disclosures. A framework that combines transparency, credibility and accessibility will not only protect investors but also support the mobilisation of capital towards Europe's sustainability objectives.

About BETTER FINANCE

BETTER FINANCE - the European Federation of Investors and Financial Services Users - is the voice of European citizens as savers, investors, and financial users at the EU level. Working independently from the industry, BETTER FINANCE serves as an independent hub of financial expertise for the direct benefit of individual shareholders, investors, savers, life insurance policyholders, pension fund participants, and mortgage borrowers across Europe. Their work aims to promote research, information, and training on investments, savings, and personal finances to lawmakers and the public. BETTER FINANCE counts 40 independent, national, and international member organisations, sharing similar objectives from the EU Member States as well as Iceland, Norway, Turkey, Lebanon, and Cameroon.

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Introduction

The Sustainable Finance Disclosure Regulation (SFDR) plays a central role in ensuring that investors receive reliable and comparable information on the sustainability characteristics of financial products. Since its introduction, the regulation has improved transparency in the market for sustainable investments but has also revealed several shortcomings. These include unclear classifications, overly complex disclosures for retail investors, and an insufficient link between sustainability claims and the investment practices of financial market participants.

For individual investors, clarity and credibility are essential. Sustainable investment products must provide meaningful information on how capital is allocated and how investments contribute to environmental and social objectives. The revision of the SFDR therefore represents an opportunity to improve the framework in a way that strengthens investor protection while maintaining the EU's ambition to mobilise capital for the transition to a more sustainable economy.

BETTER FINANCE highlights four key elements that should guide the future implementation of the framework.

1. The transition category is a welcome development

The introduction of a dedicated transition category represents a necessary and constructive improvement to the existing framework. A significant share of the European economy remains carbon-intensive, and achieving climate neutrality will require substantial investment in companies and sectors that are actively transforming their business models.

A transition category grounded in a credible sustainability-related engagement strategy can help channel capital towards companies implementing meaningful decarbonisation pathways. It reflects the need for sustainable finance not only to support already “green” activities, but also to support the real-economy transition.

However, the credibility of this category will depend on two key elements: first, a clear and operational definition of what constitutes a credible transition plan; and second, criteria that are appropriately tailored to different asset classes. Transition-labelled products should demonstrate that their investment strategy targets companies with measurable transition pathways and clearly defined sustainability objectives. Investors must be able to understand how the portfolio contributes to these objectives and how progress is assessed over time.

Evidence gathered through a BETTER FINANCE survey shows that a majority (57%) of respondents support the introduction of a transition category, provided that it is underpinned by a robust and stringent framework. In this context, BETTER FINANCE also emphasises that addressing the needs of European investors should not be seen as competing with efforts to reduce administrative burdens on financial market participants. Both objectives should be pursued in parallel.

Without sufficiently clear criteria and transparent reporting, there is a risk that the transition category becomes a marketing label rather than a meaningful investment tool, thereby repeating shortcomings already observed in the current framework.

2. The ESG Basics category should rely on a broader set of metrics

BETTER FINANCE understands the rationale for an ESG Basics category as a practical way to cover broader and more flexible approaches that do not fall under the “sustainable” or “transition” categories.

However, in its current form, the category risks being too broad to provide meaningful guidance to investors. To ensure credibility and comparability, it should

be based on a clear and sufficiently comprehensive set of sustainability objectives and indicators, rather than simply referring to “sustainability-related features”. This distinction is essential to differentiate it from the other categories and should be clearly communicated to retail investors. At present, there are no transparency requirements that make this distinction sufficiently clear to end investors.

Evidence from a BETTER FINANCE survey shows cautious and mixed views. While a relative majority considers the category useful (43%), a significant share remains unsure (29%), and others raise concerns about potential greenwashing (14%) and increased investor confusion (14%). Survey responses also noted that where practices are already sound and no further improvement is currently available, the category could help recognise existing efforts. However, there is a risk that such a label could reduce incentives to pursue further improvements if not carefully designed.

The introduction of ESG metrics, disclosure requirements and naming rules is therefore necessary to ensure that investors are not misled into believing that ESG Basics products pursue sustainability or transition-related objectives. A clear and measurable set of indicators should be established to give a more complete view of sustainability performance.

Finally, greater alignment with other EU sustainable finance frameworks, including corporate sustainability reporting requirements, would improve the consistency and reliability of the information available to investors. Overall, the ESG Basics category can be useful, but only if supported by clear definitions, stronger metrics and more transparent disclosures.

3. Engagement should be a mandatory component of transition strategies

In its current formulation, the proposal treats engagement as a possible voluntary add-on to the transition category and does not sufficiently recognise its importance in the other categories. BETTER FINANCE believes that for investment products claiming to support sustainability transitions, engagement with investee companies should be a core and mandatory element of the investment strategy.

Active ownership is one of the most effective mechanisms through which investors can influence corporate behaviour. For years, BETTER FINANCE has advocated that dialogue with companies, voting at shareholder meetings, support for shareholder resolutions and other stewardship tools can play a crucial role in encouraging stronger environmental and social practices. This is particularly important for transition products, where achieving sustainability objectives depends not only on capital allocation but also on influencing companies to adopt and implement credible transition pathways.

Allowing transition-labelled products to rely solely on passive portfolio allocation would weaken the credibility of the framework and limit the real-world impact of sustainable finance. Without a structured engagement strategy, the achievement of a product’s transition objective may be largely incidental rather than the result

of an intentional investment approach. Engagement helps ensure that investors do not simply select companies that already meet certain criteria, but actively contribute to improving their performance and holding them accountable for progress over time.

A credible engagement framework should therefore include clearly defined objectives, time-bound milestones, a description of the issues addressed, information on the proportion of the portfolio covered by engagement activities, and transparent reporting on outcomes. It should also include a clear escalation process where companies fail to make sufficient progress, including, where appropriate, voting action, collaborative engagement, filing or supporting shareholder resolutions, and ultimately divestment as a last resort.

BETTER FINANCE therefore considers that engagement should not remain optional for transition products. On the contrary, it should be a mandatory requirement and a core pillar of any credible transition strategy. More broadly, the Commission should also consider how stewardship expectations can be better reflected across the wider categorisation framework, since engagement is often the key mechanism through which investors can support real-economy sustainability improvements.

Making engagement mandatory would significantly strengthen the link between sustainable investment strategies and real-world outcomes.

4. Product-level disclosures should be maintained but substantially simplified

Product-level disclosures remain a core component of the SFDR framework from an investor protection perspective. They enable investors to understand the sustainability characteristics of financial products and to compare investment options across the market.

BETTER FINANCE welcomes the Commission's objective of simplifying and streamlining sustainability-related disclosure requirements. However, reducing or restructuring disclosure obligations at product and entity level is not, in itself, sufficient to ensure that the resulting information is genuinely accessible and useful for retail investors.

As it stands, sustainability information is often difficult for end investors to identify and use in practice. Product-level disclosures are frequently embedded in lengthy prospectuses or broader documentation, making it burdensome for retail investors to locate the information relevant to a specific product. A revised framework should therefore ensure not only simpler disclosure requirements, but also a more accessible presentation of product-level sustainability information.

In particular, BETTER FINANCE considers that pre-contractual sustainability information should be provided in a short, standardised and easily identifiable standalone format. Such disclosures should focus on the key sustainability characteristics of the product, the category under which it falls, the main

sustainability-related objective or features it pursues, the principal exclusions applied, the core metrics used to assess performance, and the main investment strategies used, including engagement where relevant. In BETTER FINANCE's view, this document should be limited to a maximum of two pages in order to be genuinely usable by retail investors.

At the same time, the proposed removal of entity-level disclosures, particularly those related to Principal Adverse Impact (PAI) statements, raises concerns. These disclosures provide essential information on financial market participants' due diligence, engagement and risk management practices, and are key to understanding how adverse impacts are identified and addressed. In the absence of equivalent sector-specific requirements elsewhere, SFDR remains a critical framework for such information, which is why these disclosures should be maintained, albeit in a more targeted and simplified form where necessary.

Overall, simplifying disclosures should not mean reducing the substance of the information provided, but rather making it more accessible, easier to find and more decision-useful for retail investors.

Additional points for consideration

In addition to the key points set out above, BETTER FINANCE would like to highlight a number of additional points for consideration that could further strengthen the coherence, comparability and credibility of the revised SFDR framework.

1. First, a **core set of mandatory product-level Principal Adverse Impact (PAI)** indicators could apply across all categories in order to ensure a minimum degree of comparability for end investors. While additional indicators may remain voluntary or be determined on the basis of materiality, a common baseline is necessary to allow investors to compare products more consistently and to better assess adverse sustainability impacts.
2. Second, **non-categorised products** should not be left entirely outside the sustainability transparency framework. At a minimum, such products should be subject to a clear and **standardised disclaimer stating that they do not meet the criteria of any SFDR category**.
3. Further reflection is needed on the scope of the Regulation, including the **treatment of portfolio management services**. Removing such services from the scope of SFDR could create unnecessary complexity and inconsistencies, especially in the context of sustainability preferences and the application of the revised product categorisation framework.
4. As regards the **ESG Basics category**, BETTER FINANCE considers that its functioning should be **reviewed within a defined timeframe**. If the category proves too broad, contributes to investor confusion, or becomes a permanent low-ambition fallback, the Commission should consider progressively tightening the criteria or introducing a sunset mechanism.