

SFDR 2.0

Reinforcing stewardship
to support a credible
sustainable finance
framework

ShareAction»

Introduction

The Sustainable Finance Disclosure Regulation (SFDR) is a cornerstone of the EU's sustainable finance framework and was originally announced as part of the EU Action Plan on Financing Sustainable Growth.¹ It aims to improve transparency, prevent greenwashing in investment products, and ultimately direct capital towards sustainable activities.²

Since the start of its application in 2021, the SFDR has played a central role in embedding sustainability considerations into investment practices. However, its implementation has also revealed shortcomings, particularly in terms of usability, comparability, and investor understanding. One of the most significant issues has been the emergence of a *de facto* product labelling system, with financial market participants misusing the Article 8 and 9 disclosure criteria as “sustainability labels” when marketing their financial products.³

On 20 November 2025, the European Commission presented its legislative proposal⁴ to revise the SFDR, which seeks to address these gaps by introducing a formal product categorisation system to replace the current use of Article 8 and Article 9 product classifications.

ShareAction welcomes the European Commission's efforts to revise the framework and to provide greater clarity for retail investors and consumers seeking to invest in sustainable financial products. Nonetheless, the new system will only succeed if it is built on robust and clear requirements that enable informed investment decisions and effectively channel private capital away from harmful activities and towards both environmental and societal needs. To achieve this, the new SFDR regime should focus on effective stewardship – via engagement, voting and escalation – as this provides the primary tool for financial market participants to engage with companies and to put them on track towards a sustainable and net-zero transition. If stewardship is not meaningfully embedded in the design of the new product categories, there is a risk that dynamics similar to those observed under the current SFDR regime could persist. The end result could be that product categories will once again signal sustainability ambition without actually translating this into tangible environmental and social outcomes.

To ensure that the SFDR framework is fit for purpose, empowers investors to make informed decisions, and supports well-functioning and transparent financial markets, ShareAction proposes that EU co-legislators adopt the following policy recommendations:

- 1. Embed and strengthen stewardship elements across the SFDR framework** by a) restoring stewardship and engagement disclosures at entity-level and b) making engagement strategies mandatory for all sustainable product categories, and most importantly for the “transition” category.
- 2. Set robust requirements underpinning the product categorisation system,** including clear criteria and exclusions, such as the mandatory exclusion of fossil fuel projects from all product categories.

Recommendation 1: Embed and strengthen stewardship elements across the SFDR framework

Stewardship explained: What it is and how it works in practice

Stewardship is one of the most powerful tools financial market participants, such as investors, have to influence how companies operate and drive behavioural change. It encompasses a range of activities such as:

- Engagement with investee companies through meetings with company management or correspondence with boards;
- The exercise of voting rights at annual general meetings (AGMs);
- The filing of shareholder resolutions;
- The implementation of escalation steps if the desired outcomes are not met, as well as capital allocation decisions.⁵

Through these activities, financial market participants can seek to effectively address environmental and social impacts of their investee companies' activities and steer them towards more sustainable pathways.

When used effectively, stewardship can promote concrete improvements in corporate practices, and result in environmental and social outcomes in line with the long-term interests of beneficiaries, asset owners, retail investors, consumers and pension savers. Ultimately, effective stewardship boosts long-term financial returns and value creation and help ensure that investments are aligned with the EU's transition to a more sustainable economy.

Overview of stewardship elements in the SFDR proposal

The Commission's proposal currently treats stewardship as an optional engagement strategy within the proposed "transition" category at product level.⁶ Framing stewardship as optional risks diluting its role precisely where it is most needed, given that corporate engagement and voting are among the most effective levers to influence investee companies' conduct and strategies.

Moreover, the SFDR proposal suggests removing entity-level disclosures. This would not only eliminate Principal Adverse Impact (PAI) reporting but also erase disclosures on engagement and due diligence policies. These disclosures are critical for providing an overview of the financial market participant's overall approach to engagement and to understand the entity's broader impact on people and the planet.



Why the SFDR must champion stewardship

Stewardship policies are already widely embedded in the day-to-day investment practices of financial market participants, as evidenced by ShareAction's research showing that the large majority of asset managers have an engagement policy in place.⁷ However, the content and quality of these policies vary significantly, and the information disclosed is often not easily accessible or understandable for retail investors and consumers.

The SFDR revision offers a timely opportunity to strengthen the role of stewardship at both entity and product level. Stronger stewardship provisions would enhance transparency, reduce greenwashing risks, and enable retail investors and consumers to assess whether sustainability claims are backed by credible engagement and voting practices. By clearly linking sustainability claims to concrete stewardship actions, the SFDR can better support real-economy change.

Therefore, ShareAction is making the following recommendations:

A. Restoring stewardship and engagement disclosures at entity-level

Entity-level disclosures enable asset owners, retail investors and consumers to assess financial market participants' sustainability performance holistically, and to have a general overview of how sustainability considerations are integrated across the organisation.

The reporting of both stewardship and engagement activities is generally developed at the entity-level, reflecting firm-wide priorities across sectors, portfolios and asset classes.⁸ These strategies underpin product-level engagement, with financial market participants able to draw on the entity-level stewardship plan.⁹

In a situation where stewardship disclosures are limited to product level only, retail investors and consumers would lack a clear overview of financial market participants' overall stewardship approach and engagement plans. This creates a risk that financial market participants could market certain 'green' or 'sustainable' funds to enhance their ESG credentials while continuing to finance or engage in harmful practices elsewhere in their portfolios. Furthermore, product-level reporting alone may also fail to capture inconsistencies and conflicts in stewardship practices, such as voting against or abstaining from sustainability resolutions at AGMs while also actively promoting sustainable products in the same investee company.

ShareAction believes there is clear value in requiring a standardised, concise and accessible description of stewardship policies at entity-level under the SFDR.

In particular, **EU policymakers should require financial market participants to disclose on their website a brief document containing the following information:**



- 1. A description of their stewardship policy**, including an engagement policy with clear engagement objectives, sectoral expectations, time-bound milestones, as well as an escalation framework, and a voting and implementation strategy;
- 2. A limited set of the most relevant principal adverse impact (PAIs) indicators**, covering exposure to fossil fuel activities, violations of international standards and controversial weapons,^l complemented by product-level aggregated PAI indicators;
- 3. A description of methodologies** used to identify and prioritise principal adverse sustainability impacts.

The latest report on PAI disclosures by the European Supervisory Authorities (ESAs)¹⁰ shows that PAI reporting is becoming increasingly embedded, and many investors have indicated their intentions to continue using certain PAI indicators at entity-level due to their usefulness and relevance.¹¹ Therefore, PAI disclosures should be reinstated in a more streamlined and limited form reflecting existing market practices.

This is particularly important given the recent changes to the EU's sustainable finance framework through the Omnibus I legislation,¹² which will significantly diminish the availability of sustainability information. The increased company thresholds for the Corporate Sustainability Reporting Directive (CSRD)¹³ coupled with the removal of sector-specific standards (including those for the financial sector) will have far-reaching implications for the EU sustainability information landscape. Removing entity-level reporting in the SFDR in parallel would further weaken transparency across the financial system.

B. Making engagement strategies mandatory for all sustainable product categories

Stewardship should be treated as a core pillar of the SFDR product categorisation framework more generally, rather than as an optional add-on, in particular for the proposed “transition” category.

Stewardship is particularly critical in transition activities, where achieving sustainability objectives depends on changing company behaviour rather than simply reallocating capital. In transition-exposed sectors, continued investment without clear expectations and credible escalation risks entrenching misaligned business models and undermining transition efforts.¹³

Beyond “transition” products, stewardship also plays an important role for products in the

^l The share of investments in companies active in the fossil fuel sector (PAI 4), in investee companies involved in violations of the UN Global Compact principles or the OECD Guidelines for Multinational Enterprises (PAI 10), and in investee companies involved in the manufacture or sale of controversial weapons (PAI 14).

¹³ From 500 to 1,000 employees. As a result, only a limited number of financial market participants will be required to report under the CSRD, as many entities will not meet the 1,000-employee threshold.



proposed “sustainable” category, as it supports investee companies in achieving their objectives, and for “ESG basics” products seeking to demonstrate a credible sustainability track record. Engagement strategies represent a key source of information, outlining how financial market participants plan to engage with investee companies.

The requirement to develop an engagement strategy should be clearly attainable and calibrated to the relevant asset class, and should coherently reflect the broader engagement policy established at firm level. As suggested by the Platform on Sustainable Finance, such an engagement strategy should set out clear and measurable engagement objectives, a voting and implementation strategy, defined escalation steps, and the proportion of the portfolio covered by engagement activities.¹⁴

Therefore, **the new SFDR regime should mainstream stewardship by making engagement strategy^{III} a mandatory requirement across all sustainable product categories, and most importantly for the “transition” category.**

^{III} The legislative proposal to review the SFDR frames the engagement strategy element in the product categorisation system as follows: “investments accompanied with a credible sustainability-related engagement strategy, targeting specific changes with defined milestones and measured with reference to those targets and milestones, and integrating escalation actions in case the expected changes do not happen, in combination with any of those referred to in points (a) to (d) or (h);”.



Recommendation 2:

Set robust requirements underpinning the product categorisation system

The introduction of a product categorisation system represents the key innovation of the SFDR 2.0 and is a welcome step towards a more coherent and accessible framework for retail investors and consumers. Nonetheless, its effectiveness will depend on the robustness and coherence of the criteria underpinning each category.

Weak or confusing criteria would not only exacerbate greenwashing risks but also undermine the credibility of the revised framework. The current SFDR regime has already given rise to greenwashing concerns and the mis-selling of financial products as sustainable.¹⁵ The SFDR review now offers a critical opportunity to establish intuitive and transparent product categories that enable consumers to direct their capital towards genuinely sustainable activities.

Structure and criteria of the product categorisation system

To enhance comparability and investor usability, the SFDR 2.0 should move away from a menu of optional criteria and instead anchor each product category in a fixed set of core requirements. As currently proposed, the flexibility afforded to the “transition” and “ESG basics” categories risks undermining within-category comparability and limiting the framework’s usefulness for retail investors.

Therefore, ShareAction is making the following recommendations:

A. Embedding cross-cutting requirements across all product categories

- Disclosures on the principal adverse impacts (PAIs) of investments, as well as related actions, should apply across all product categories and not be limited to “sustainable” and “transition” products, thereby also covering products classified under the “ESG basics” category. A limited set of core PAI indicators should apply to all financial products, with financial market participants identifying and disclosing additional PAIs on the basis of materiality and severity.
- Engagement strategies should become a mandatory, cross-cutting requirement for all categories.
- In line with ESMA’s fund naming guidelines for ESG/sustainability-related terms,¹⁶ the threshold for alignment with a fund’s stated sustainability objective should be increased from 70% to 80%.



B. Strengthening category-specific requirements

- In the “transition” category (Article 7), financial products falling within this category should, at a minimum, be subject to mandatory criteria requiring investments in companies or economic activities having either a credible transition plan or science-based targets, alongside mandatory requirements relating to the engagement strategy, as set out in Article 7(2)(c) and (d).
- For the “sustainable” and “transition” categories, the current 15% Taxonomy alignment threshold is not sufficiently material and should be raised to safeguard credibility and reduce greenwashing risk. ShareAction therefore proposes a phased approach: a 20% threshold for the “transition” category, increasing to 25% following the review foreseen in Article 19, and a 25% threshold for the “sustainable” category, raising to 30% after the same review period.

C. Setting clear exclusions

- Robust and consistently applied exclusions are a critical component of the framework, ensuring that retail investors and consumers can be confident that certain harmful activities are excluded from the financial products they purchase. In particular, the exclusion of new fossil fuel projects should not only apply to “sustainable” and “transition” categories but also to the “ESG basics” category. This would ensure that no financial product marketed as sustainable or sustainability-related maintains exposure to fossil fuel expansion.

Summary of suggested requirements for the product categorisation framework

Requirement	Sustainable category	Transition category	ESG basics category
PAIs disclosures at product - level	applicable	applicable	applicable
Stewardship in the form of a mandatory engagement strategy	applicable	applicable	applicable
Transition plan or targets	n/a	applicable	n/a
Taxonomy-alignment safe harbour clause	25% (up to 30% after review)	20% (up to 25% after review)	n/a
Minimum thresholds	80%	80%	80%
Exclusion of fossil fuel activities	applicable	n/a	n/a
Exclusion of fossil fuel expansion projects	applicable	applicable	applicable



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ShareAction is an independent charity and an expert on responsible investment. We work to build a world where the financial system serves our planet and its people. We set ambitious standards for how financial institutions, through their investment decisions, can protect our planet and its people and we campaign for this approach to become the norm. We convene shareholders to push companies to tackle the climate crisis, protect nature, improve workers' lives and shape healthier societies. In the UK and EU, we advocate for financial regulation that has society's best interests at its core.

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EU Transparency Register nr: 75791956264-20