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IFD RESPONSE TO THE EUROPEAN COMMISSION'S CONSULTATION ON THE REVISION OF THE SFDR

3rd of April 2026

The "Institut de la Finance Durable" (IFD) welcomes the European Commission's SFDR revision proposal, published on 20 November 2025. IFD's position is consistent with views previously expressed in its December 2023 [response](#) to the targeted SFDR consultation and its May 2025 [response](#) to the Call for Evidence on SFDR revision, as well as a May 2025 [joint position](#) with Paris Europlace on the simplification omnibus package. Through this response, IFD reaffirms core principles for effective SFDR implementation while offering specific feedback on the Commission's proposed amendments.

Scope of the regulation

The Commission's proposal refocuses the SFDR on financial products claiming ESG characteristics or pursuing sustainability objectives, contributing to greater clarity for market participants.

However, SFDR does not cover all financial products and instruments which can embed sustainable characteristics and can be distributed as such to investors under MiFID and IDD, leaving the uncertainty on how to assess those characteristics when the instruments fall out of scope.

No type of financial product should be excluded by default from the scope of the SFDR, provided it can contribute to redirecting financial flows toward sustainable or transition activities. This is essential both to ensure the effective financing of such activities and to enhance transparency for investors, while maintaining a level playing field among financial actors. Accordingly, the criteria for product categories may have to be adapted at level 2 to the specific characteristics of all financial products, including unlisted funds, structured products, and insurance-based products such as MOPs or euro funds. In particular, these criteria should not indirectly prevent products from being classified by excluding certain underlying asset

classes (such as real assets or sovereign exposures) or the instruments used in their construction (such as derivatives).

Specifically, as regards structured products, they can embed sustainability features and they are also widely distributed to retail investors as they often offer capital protection together with ESG features. Their current exclusion from SFDR prevent issuers and distributors to rely on a harmonised European methodology to assess their sustainability characteristics, leaving room for divergent approaches which increase the risk of green washing. In addition, this situation creates unjustified inconsistencies with structured funds that are in the scope of SFDR and propose comparable payoff.

Regarding the exclusion of mandates, particularly for Retail, it will be important to ensure a consistent application of sustainability preferences at the point of sale and a level playing field between fund-based and mandate-based retail offerings.

Product categorisation and eligibility criteria

IFD supports the introduction of a harmonised product categorisation framework aimed at improving market clarity and investor protection, while noting that several aspects of the proposed criteria require further clarification and adjustments.

I. Inclusion of sovereign assets:

While the 70% threshold contributes to the credibility and clarity of the framework, it may create structural constraints for certain financial products. Sovereign bonds represent a structurally significant component of a number of financial products, including euro funds and certain fixed-income and multi-asset products (more than 30% in the case of euro funds¹). In this context, sovereign bonds should be eligible for inclusion within the categories defined at articles 7, 8 and 9, provided that appropriate methodologies and safeguards are defined to ensure consistency with the objectives of each category.

Moreover, considering the EU's strong regulatory framework and Member States' legal commitment to ambitious climate targets, EU sovereign debts can be considered as consistent with transition dynamics. A simplified approach would be to recognise all EU sovereign exposures *de facto* within the transition category, while developing a robust methodology for non-EU sovereigns reflecting both actions and international commitments. This recognition should be subject to potential declassification in case of breaches of principles.

¹ €526 billion out of total outstanding assets of €1,734.5 billion in 2024 (source: France Assureurs)

II. Provisions for alternative strategies:

While we welcome the inclusion of the “other investments” option (Articles 7(2)(h), 8(2)(e) and 9(2)(g)), which is important to accommodate certain asset classes, including private and real assets, as well as future innovations in the various categories, its use should be framed in a way that preserves the credibility of the categorisation framework.

We welcome the inclusion of the provision whereby the 70% threshold may only need to be met at the end of a transitional period, to be defined more precisely at level 2. It could further be specified that this 70% threshold should no longer apply during the divestment phase for private asset funds, in order to prevent such funds from falling into breach of the ratio.

III. Transition category

The introduction of exclusion criteria contributes to strengthening the credibility of sustainability claims. However, the exclusions currently proposed for the “Transition” category appear overly restrictive and may limit its ability to effectively support transition pathways across all economic sectors. While keeping the exclusions unchanged for the exploration, mining, extraction, distribution, refining and exploitation of hard coal and lignite, the set of exclusions of the SFDR “Transition” category should align with the set of exclusions defined at Article 9 of the Benchmark Regulation – related to the ‘Climate Transition Benchmarks’.

When financing corporates, mandatory positive screening criteria should include a robust engagement strategy associated with a sound escalation process based on interim engagement results. In the case of corporates from the oil and gas sectors, a credible transition plan should also be mandatory. The definition at level 2 of the structure and content of transition plans should reflect the definition provided in the ESRS, or VSME for the corporates not subject to CSRD. Recognised reference methodologies such as ACT developed by ADEME, TPI developed by the Grantham Institute or CIA developed by Carbone 4, can be used to support the elaboration of a transition plan and to assess its credibility².

It should be precised that investments with a credible transition target set at the portfolio level may be eligible for the transition category, provided that the ‘equity allocation constraint’ defined in Article 3 of the Benchmark Regulation is met.

² See also IFD’s [guide](#) to analyzing companies’ carbon transition performance

While the taxonomy alignment threshold is relevant for the sustainable category given the taxonomy approach of defining sustainable activities, its level could appear dissuasive in the context of the transition category which aims to precisely support activities undergoing transformation to become sustainable.

As regards paragraph 3 of Article 7, exposure to high emitting sectors may be added to the list of information to be disclosed when the transition objective of the financial product is related to carbon transition.

IV. Clarity and positioning of the “ESG Basics” category: Clear delineation of product categories is essential to enhance market readability and the effective functioning of the revised SFDR framework, in particular for retail clients and financial advisers. This need is especially relevant for the “ESG Basics” category, whose scope and level of ambition should be sufficiently clear to avoid ambiguity and facilitate understanding of sustainability claims. The outperformance referred to in Article 8(2)(a) and Article 8(2)(b) will have to be defined more precisely at level 2³. Article 8(2)(c) is not sufficiently precise to serve as a self-standing eligibility criterion. As regards the category name, the choice of the term “basics” is inappropriate because it has a negative connotation. In addition, the best-in-class and best-in-universe approaches should be explicitly mentioned as these approaches are widely used both for investment funds and for structured products.

Finally, as regards the taxonomy alignment criteria for the transition and sustainable categories, the European Commission should clarify whether this alignment has to be calculated for CAPEX or revenues.

Principal Adverse Impact indicators

When developing at level 2 the technical requirements for the ‘principal adverse impacts’ indicators at product level, we call for the European Commission to build on the central concept of materiality, provided that the materiality of the indicators depends on the design and objectives of financial products. It is very important that corporates and financial market participants rely on the same set of datapoints and indicators to ensure standardisation in the reporting practices and data use. Maximising the synergies between the ESRS / VSME frameworks and the level 2 requirements of the SFDR is therefore particularly critical.

³ The AMF position, [2020-03](#), may be used as a relevant reference on that subject.

Integration of impact finance

IFD welcomes the introduction of an impact investing add-on in the European Commission's proposal. This is in line with the standards developed by the Paris Financial Centre, which are now considered an industry benchmark⁴.

In this regard, IFD draws the European Commission's attention to the absence of the pursuit of additionality among the specific characteristics of impact finance in its proposal. This criterion is recognised by the French market group, which brought together more than 150 organisations⁵, as one of the three fundamental pillars of impact finance, along with intentionality and impact measurement.

IFD therefore encourages the European Commission to take into account the best market practices and to consider additionality as a specific characteristic of impact investing.

Regulatory alignment and implementation

The revised SFDR would benefit from a coherent and well-coordinated implementation with the broader EU sustainable finance architecture, including MiFID II and IDD suitability requirements, PRIIPs disclosures, the CSRD/ESRS framework, ESMA fund naming guidelines⁶ and the Benchmark Regulation. Ensuring coherence across these frameworks, in terms of concepts, scope and timelines, would provide greater legal certainty and reduce investor confusion and operational complexity. Finally, the revised SFDR should enter into force 18 months after the whole framework is finalised, including the adoption of the level 2 requirements and the sustainability preferences rules under MiFID/IDD. When the rules related to sustainability preferences under MiFID II/IDD are revised to align with the SFDR reform, the process for expressing client preferences will also need to be simplified.

Transitional period

The introduction of a transitional period is a positive element of the proposal. However, a clearer and more detailed approach for the transition between the products relying on the first version of SFDR, and those building on the second version, is needed. Continuing to operationalise provisions that are outdated with the SFDR reform risks creating inefficiencies

⁴ [The Impact investor charter and its Impact potential evaluation grid](#)

⁵ [The Definition of impact investing](#)

⁶ Should the ESMA Guidelines on funds' names using ESG or sustainability-related terms remain in force, it is essential to ensure full coherence with the revised SFDR framework. Alternatively, if the revised SFDR provisions are considered to adequately protect investors in this regard, the withdrawal of these guidelines should be envisaged.

with a two-track approach, misalignment and communication challenges for investors. It is therefore important to have a period of tolerance starting when the final text is voted.

In addition, it would be helpful to clarify the scope of the transitional arrangements, notably with regard to AIFs and certain UCITS, which are not explicitly referenced in the current text. Ensuring that the transitional regime applies consistently across relevant fund structures would support equal treatment and facilitate the coherent implementation of the revised framework.

ESG data providers

Financial market participants rely heavily on data produced by external providers for their sustainability reporting. IFD and Paris Europlace have consistently highlighted⁷ the need to improve the transparency of the methodologies used to produce such data, in order to ensure their accuracy and reliability for investment decision-making. However, ESG data products are not currently covered by EU regulation on the transparency and integrity of ESG rating activities. We therefore call on the European Commission to consider, in the context of the SFDR reform, regulating the production of ESG data by introducing minimum transparency and methodological requirements on ESG data providers, with a view to enhancing the reliability of sustainability-related information disclosed by financial market participants.

About the Sustainable Finance Institute - IFD

The Institut de la Finance Durable (Sustainable Finance Institute – IFD) was established in Paris in November 2022, as a part of Paris Europlace, following the first steps accomplished by Finance for Tomorrow. The objective is to promote Green and Sustainable Finance at the national level as well as at the European and international levels. The IFD gathers all stakeholders: representatives of Public Authorities, Corporates, Financial Institutions and experts. It monitors, in cooperation with the French Treasury, the agenda of the CFTE (Comité de place pour le Financement de la Transition Ecologique), a dedicated committee chaired by the French Finance Minister.

⁷ See for instance this [position paper](#) issued in March 2023.