

ADDENDUM TO PRI POSITION PAPER ON SFDR REVISION

Policy briefing

July 2026

An investor initiative in partnership with
UNEP Finance Initiative and UN Global Compact



About this addendum

This addendum builds on PRI's previous [position paper](#) on the SFDR review (published in February 2026) and reflects additional input gathered from PRI signatories through investor discussions, exchanges with members of the [Global Policy Reference Group \(GPRG\)](#), and written feedback. It focuses on a set of issues that have become central in the ongoing Council and Parliament negotiations and where further clarification can support consistent and effective implementation of the revised framework.

The recommendations below address these specific areas and are intended to complement - rather than replace - the positions set out in our earlier paper. This update should be read as a proactive contribution to an ongoing legislative process: as the policy environment advances, the PRI aims to clarify and enhance its position to support a consistent, credible, and implementable SFDR revision.

On 20 November 2025, the European Commission released a draft revision of the Sustainable Finance Disclosure Regulation (SFDR). The proposed "SFDR 2.0" establishes a new product-categorisation regime comprising Sustainable, Transition, and ESG Basics products, each defined by specific quantitative thresholds, eligibility criteria, and mandatory exclusion rules. The proposal also streamlines entity- and product-level disclosure requirements and introduces clearer, binding standards for the naming and marketing of sustainability-related financial product.

About the PRI

The PRI is the leading organisation in advancing responsible investment globally. Set up with United Nations' support, our unique community contributes to stable financial markets and a more prosperous world for all. We bring together signatories, amplify their voices and provide resources and guidance for complex sustainability challenges. The six Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

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Executive Summary

Since the publication of the PRI's initial [position paper](#) on the SFDR review in February 2026, the legislative process has progressed substantially in both the EU Council and the European Parliament. The Council reached a [compromise text](#) on 24 June 2026. In parallel within the European Parliament, the Committee on Economic and Monetary Affairs (ECON) rapporteur has published a comprehensive [report](#) outlining his initial priorities and proposed amendments, which are scheduled for a committee vote in July 2026. A final plenary vote is expected in September, after which Trilogue negotiation would begin. Subject to the progress of interinstitutional negotiations, a political agreement could be reached by the end of 2026, with the final legal text expected to be formally adopted in 2027 following legal-linguistic revision and approval by the co-legislators.

Many of the recommendations from PRI initial position paper are now reflected in the policy discussions underway, indicating broad convergence on the need for a more coherent and operational disclosure regime. At the same time, the institutional debate has shifted to politically sensitive and technically complex issues that will determine whether the revised SFDR framework can be implemented effectively. In particular, decisions on **exclusions across the three product categories**, the **criteria for defining the Transition category**, and the overall **scope of the regulation** have become critical to ensuring the framework remain workable and aligned with investor needs.

Considering this evolving context, **this addendum is intended to complement – not revise – our earlier positions**. It provides targeted clarifications and expands our analysis to areas that have become key in the Council and Parliament deliberations. Our aim is to ensure that the perspective of responsible investors is clearly outlined, as policy makers refine the structure of the future SFDR framework. Against this background, PRI propose the following recommendations to ensure that the revised SFDR framework remains credible and workable in practice for investors:

- 1. Remove the 1% coal revenue threshold** (companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite) **in the Transition category, while keeping the exclusion of companies that develop new fossil fuel projects.**
This would allow investors to support companies that are genuinely moving away from coal and oil and gas while still preventing investment in activities that are not compatible with a net-zero pathway and could lead to carbon lock-in. The light flexibility introduced by removing 1% coal revenue threshold would reduce the risk of “paper decarbonisation” by enabling continued investment and engagement in sectors and regions where transition financing is most needed and that are still highly dependent on coal.
- 2. Establish a clear method to assess transition plans, at both company and portfolio level.**
Since credible transition plans are central to the Transition category as defined under the proposed SFDR regime, a clear assessment process is needed to enable investor evaluating their robustness. Transition products categorised as such under SFDR should demonstrate both solid transition efforts at individual company-level and a consistent overall strategy at portfolio level.
- 3. Keep the current application scope of SFDR, covering institutional, retail, and professional investors.**
This would help maintain comparability, avoid market fragmentation, and ensure consistent sustainability disclosures across the asset management industry. A common framework would allow investors to compare products more easily, strengthen accountability, and increase the flow of capital towards transition investments. Conversely, reducing the scope of SFDR could create a two-tier market, lower transparency, and weaken trust in the regime.



PRI Recommendations

1. Remove the 1% coal revenue threshold in the Transition category, while keeping the exclusion of companies that develop new fossil fuel projects.

European Commission proposal:

The SFDR 2.0's proposed mandatory exclusions for the three product categories – based on Climate Transition Benchmark (CTB) and Paris Aligned Benchmark (PAB) criteria¹ – represent a major evolution within the regulation.

European Commission proposal	
Product Category	Exclusions
ESG basics	Follows CTB + 1% coal/lignite revenue threshold
Transition	Follows CTB + 1% coal/lignite revenue threshold + exclusion of companies investing in fossil fuels expansion and coal new projects
Sustainable	Follows PAB + exclusion of companies investing in fossil fuels expansion

By restricting investments in companies with coal-related revenues and in companies expanding fossil fuel activities², the Commission aims to strengthen the credibility of product categories, reduce greenwashing risks, and avoid financing activities considered harmful to global sustainability objectives.

While investors welcome the clarity provided by the proposed criteria, they have also expressed concerns about the unintended consequences of applying 1% revenue coal exclusions to the Transition category. This approach could indeed limit investors' ability to support real-economy decarbonisation.

European Parliament ECON rapporteur and Council positions:

The European Parliament's rapporteur supports the Commission's proposal. However, the Council has taken a different approach in its compromise. It suggests that some fossil fuel companies could be included in the Transition category. To qualify, they would need to allocate at least 20% of their capital expenditure to EU Taxonomy-aligned activities and have a clear, time-bound emissions reduction strategy.

¹ Climate Transition Benchmark exclusions include companies involved in any activities related to controversial weapons; companies involved in the cultivation and production of tobacco; companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises; companies that are found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives referred to in Article 9 of the Taxonomy Regulation.

Paris Aligned Benchmark exclusions include CTB exclusions and companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO₂e/kWh

² Commission exact definition is: "By restricting investments in companies with coal-related revenues and in companies expanding fossil fuel activities, specifically those that: (i) develop new projects for the exploration, extraction, distribution or refining of hard coal and lignite, oil fuels or gaseous fuels; or (ii) develop new projects relating to, or lack a phase-out plan for, the exploration, mining, extraction, distribution, refining or exploitation of hard coal or lignite for power generation."



This introduces a more prescriptive framework for fossil fuel-related companies. However, initial investors reactions to this proposal are mixed, some questioning if such an approach would be consistent with a net-zero transition pathway.

PRI recommendation #1

PRI recommendation aims to balance ambition and practicality. It seeks to preserve the integrity of SFDR product categories; while ensuring they remain workable for investors and effective in directing capital towards key sectors of the transition.

We therefore recommend removing the 1% coal revenue exclusion from the Transition category and instead applying the CTB exclusions alongside the fossil fuel expansion exclusion to better support real-economy decarbonisation.

Fossil fuel expansion is incompatible with the transition to a net zero economy.

The [IEA's NZE 1.5°C pathway](#) shows fossil fuel demand falling by 80% by 2050, requiring no new long-lead-time oil and gas projects, no new coal mines, and no new unabated coal plants. The IEA affirmed in that a 1.5°C-aligned world cannot support new oil and gas investments.

Under the [European Climate Law](#), the Union is bound to achieve climate neutrality by 2050 and to reduce net greenhouse gas emissions by at least 55% by 2030 (and by around 90% by 2040), requiring all EU policies and regulatory frameworks to be consistent with this trajectory. Against this background, the Commission's proposal is consistent and justified. It excludes companies that are developing new fossil fuel projects from both the Transition and Sustainable categories. This aligns with both scientific evidence and EU legal obligations.

At the same time, the IEA highlights the critical role of transition finance. This type of finance is needed to support hard-to-abate sectors. It also supports activities that are not yet green but are necessary for the transition. Without it, especially in emerging markets and developing economies (EMDEs), investors may just reduce exposure rather than support real decarbonisation efforts. This could lead to lower reported emissions from their invested portfolios without corresponding real-world impact.

Divestment alone is insufficient. Active investor engagement remains essential as it helps drive credible and system-wide emissions reductions.

Extended CTB exclusions adding coal revenue threshold for transition funds risk “paper decarbonisation”.

Extending CTB exclusions to transition products raises important risks. Adding a 1% coal revenue threshold could significantly reduce the investable universe. This impact would be most pronounced in emerging markets, where coal exposure remains high and financing conditions are more constrained. As a result, capital could be diverted away from sectors and regions where it is most needed.

Excluding companies with limited coal exposure, even where credible phase-out plans are in place, would also reduce investor leverage. The key criterion for selecting entities in Transition products should be the credibility of companies' transition plan, rather than a rigid revenue threshold.

A more balanced approach is therefore needed. The Sustainable category can retain stricter exclusions, including full PAB criteria but the Transition category should remain sufficiently flexible to support real-economy decarbonisation, particularly in high-emitting sectors.

Finally, applying fossil fuel expansion and CTB coal exclusions to fixed-income portfolios could lead to rapid portfolio adjustments. This may create market disruption that the European Commission should carefully consider while defining the transition period from the old to the new SFDR regime.



PRI proposal	
Category	Exclusions
ESG basics	Follows CTB + 1% coal/lignite revenue threshold
Transition	Follows CTB + exclusion of companies investing in fossil fuels expansion and coal new projects
Sustainable	Follows PAB + exclusion of companies investing in fossil fuels expansion

2. Establish a clear method to assess transition plans, at both company and portfolio level.

European Commission proposal:

SFDR 2.0 introduces a dedicated Transition category that aims to support the transition of undertakings, economic activities and other assets (such as real estate and infrastructure) towards sustainability, or contribute to such transition. Investors broadly welcomed the creation of this category, recognising the need for a framework that supports real-economy decarbonisation rather than portfolio screening.

Political negotiations have centred on the definition of a “credible” transition plan – one of the key proposed criteria for investments to be eligible for the Transition category. While the Commission’s proposal does not define credibility directly, it lists the types of investments that may qualify – i.e., investments in companies with transition plans and science-based targets, investments that are supported by credible engagement strategies, portfolio-level transition targets, and other investments that “credibly contribute” to the transition.

SFDR Transition Product – Investment Criteria	Description as based on the European Commission proposal
Credible transition plan	Investments in an undertaking or economic activity that has a credible transition plan addressing at least one sustainability factor, either at undertaking level or activity level, proportionate to the size of the undertaking.
Science-based targets	Investments in an undertaking or economic activity that has credible science-based targets supported by information that ensures integrity, transparency, and accountability.
Sustainability-related engagement strategy	Investments accompanied by a credible engagement strategy aimed at achieving specific sustainability-related changes through defined targets and milestones, including escalation measures if progress is not achieved.
Portfolio-level transition target	Investments that contribute to a credible transition target set at portfolio level, such as a progressive reduction of portfolio emissions over time.
Other credible transition contributions	Other investments may qualify where the undertaking, economic activity, or asset credibly contributes to the transition, provided that adequate justification is disclosed.



European Parliament ECON rapporteur and Council positions:

Institutional discussions are focusing on how the Transition category can strike a balance between credibility and usability. The recent Council compromise adopts a process-based approach to ensuring the credibility of transition investments, requiring financial market participants to implement structured due diligence and ongoing monitoring of transition progress at both issuer and portfolio level. This includes assessing governance, transition targets, and implementation strategies, alongside mechanisms to identify and address underperformance, with annual review and update, if necessary. This is broadly aligned with PRI's objective of strengthening the credibility of transition finance and represents a positive step in the direction of a more robust and operational framework.

Parliament and Council have not yet reached a consensus on whether credibility should be assessed primarily at the level of the company (limiting inclusion to companies that are already on a verifiable decarbonisation pathway), at the level of the financial market participant (based on investors' capacity to drive decarbonisation across their portfolios over time), or through a combination of both. A definition that is too loose risks undermining trust in the Transition category, but one that is too strict risks substantially restricting the investment universe and excluding investments that are needed to drive real-economy decarbonisation.

PRI's recommendation #2

Financial market participants offering products under the Transition category should be required to conduct both company-level (investee) and portfolio-level assessments³. The revised SFDR should make clear that compliance cannot rely solely on aggregated portfolio metrics, nor exclusively on company-level screening.

A dual approach is important to preserve both the credibility and the usefulness of the Transition category.

- Company-level assessments ensure that transition products avoid exposure to activities fundamentally inconsistent with transition objectives. Such assessments may include ESG due diligence and a review of whether a company's disclosure, transition strategy, and capital allocation are aligned with its stated commitments. This provides minimum integrity safeguards and reduces greenwashing risks.
- Portfolio-level assessments recognise that transition happens progressively and across sectors and economic systems. They allow investors to support companies that are not yet aligned but demonstrate credible transition pathways - particularly in hard-to-abate sectors and regions where investment is most needed.

Requiring both company-level and portfolio-level assessments recognises that each captures a different dimension of transition assessment. Portfolio-level metrics may demonstrate overall alignment while masking exposure to issuers with weak or insufficient transition strategies. Conversely, company-level analysis alone cannot ensure that the overall portfolio is managed towards a coherent transition objective.

These two level of assessment should therefore be seen as complementary safeguards, ensuring that Transition categorised products demonstrate both credible company-level transition characteristics and consistent portfolio-level alignment, while maintaining flexibility in the methodologies used to meet this category requirements.

³ Level 2 should provide illustrative examples of best practice, such as usage of externally assured data; targets grounded in historical performance and scientific evidence; demonstrated CAPEX/OPEX allocation to support transition plan delivery; and, where applicable, the incorporation of transition-related targets into executive remuneration to strengthen accountability.



A process-based approach is both necessary and pragmatic. Transition planning is rapidly evolving, the scope of CSRD has been reduced, and there are ongoing challenges in aligning ESRS with other international standards. While data availability is expected to improve over time it remains uneven at present. It is therefore neither feasible nor desirable to define overly prescriptive criteria for what constitutes a “credible” transition plan. Instead, a process-based assessment of credibility – grounded in transparency and accountability – should be adopted. This approach would allow the framework to evolve as the market practices matures, while still providing clear expectations for investors and supervisors.

3. Keep the current application scope of SFDR, covering institutional, retail, and professional investors.

European Commission proposal:

The current SFDR framework retains a broad scope, covering both asset owners and investment managers, while excluding financial advisers and portfolio managers that provides services rather than financial products. This creates potential inconsistencies with MiFID II and IDD - as highlighted in previous [PRI positions](#).

Some investor associations have called for allowing certain products, particularly funds marketed exclusively to professional investors, to opt out of SFDR requirements⁴, on the grounds that they already often provide bespoke reporting and have sophisticated internal processes (e.g. client-defined metrics or custom exclusion lists).

European Parliament ECON rapporteur and Council positions:

The Council compromise proposes that financial market participants may be exempt from applying the SFDR categorisation requirements to alternative investment funds offered exclusively to professional investors. This exemption is based on the assumption that professional investors do not require the same level of standardised product-level disclosures as retail investors, given their ability to assess sustainability information through bespoke reporting and due diligence processes.

By contrast, the ECON draft report proposes the inclusion of packaged products within the scope of the SFDR, but does not address or provide for any potential opt-out from SFDR requirements.

This divergence raises important questions about the core objective of the SFDR, namely to ensure transparency, comparability, and trust across the EU financial market. The Commission’s proposal already introduces targeted improvements to make the framework more workable across different asset classes, including refined criteria for the three product categories and simplified disclosure templates.

Further narrowing the scope through specific exemptions risks undermining these objectives. It may fragment the regulatory framework, weaken comparability between financial products, and create parallel disclosure regimes for retail and institutional investors.

PRI recommendation #3

The scope of SFDR should be maintained. Broad coverage across both retail and institutional products helps maintain comparability, avoids market fragmentation, and ensures that all investors – whether professional and retail – benefit from clear, standardised sustainability disclosures.

A broad scope is important for the following reasons:

- **Comparability and market integrity**

⁴ The suggestion that funds targeted exclusively at professional investors might be permitted to opt out of SFDR requirements has been increasingly referenced in public debates. EFAMA’s [position paper](#) on the SFDR review provides an example of how this issue has been raised within industry consultations.



While asset owners can request tailored information from investment managers, they often rely on standardised disclosures to assess sustainability performance across managers and products on a like-for-like basis. The fact that more than half of EU assets under management fall under SFDR's sustainability-related categories⁵ demonstrate clear institutional demand for such disclosures. Institutional investors therefore benefit from continued access to a common financial product categorisation system and simplified reporting templates, which support efficient and comparable assessment across the market.

- **Accountability to beneficiaries and policyholders**

Institutional investors such as pension funds and insurers must be able to justify their investment decisions to beneficiaries and policyholders. Standardised SFDR disclosures provide a consistent, transparent way to demonstrate how sustainability is integrated into investment and stewardship practices – which is an essential component of fiduciary duty.

- **Strengthening competitiveness and the economic transition**

A well-designed SFDR, including a credible Transition category, can support institutional investors seize opportunities linked to electrification, clean technologies and the real economy transition. Introducing carve-outs would risk weakening trust in sustainability labels and reduce the effectiveness of SFDR as a tool to mobilise capital towards transition objectives.

Targeted improvements are needed to make the SFDR practicable. This is particularly the case for sovereign bonds, private assets, and certain category criteria. However, simplification must not come at the cost of coherence. Exempting institutional products would create a two-tier market, undermine transparency, and erode the progress already achieved under SFDR.

Preserving a broad scope ensures that SFDR remains a coherent, comparable, and credible framework - capable of supporting Europe's transition objectives, enabling a competitive and resilient net zero economy, and maintaining trust across the investment chain.

⁵ According to EFAMA's [SFDR Market Insights analysis](#), approximately 62% of EU fund assets are classified under SFDR's sustainability-related categories (Articles 8 and 9), meaning that a majority of EU AUM is already subject to sustainability-related disclosure requirements.



Annex

The table below provides a consolidated overview of the recommendations from PRI initial [position paper](#), together with those introduced in the present addendum, reorganised according to PRI amendments prioritisation. Items highlighted in green indicate issues that remain under active discussion and are the primary focus of our engagement efforts. Items in light blue refer to recommendations that have already been taken up by the co-legislators, where continued support and follow-up remain important. Items highlighted in grey correspond to topics that are no longer being considered by co-legislators.

1	New	Remove the 1% coal revenue threshold in the Transition category, while keeping the exclusion of companies that develop new fossil fuel projects
2	New	Establish a clear method to assess transition plans, at both company and portfolio level
3	Previous policy paper	Maintain disclosure of a limited set of sustainability indicators across product categories
4	Previous policy paper	Ensure policy consistency across the EU Sustainable Finance legislative framework
5	Previous policy paper	Introduce a disclaimer for non-categorised funds
6	Previous policy paper	Address specific asset classes challenges
7	Previous policy paper	Establish clearer and more robust criteria for 'ESG basics' category
8	New	Keep the current application scope of SFDR, covering institutional, retail, and professional investors.
9	Previous policy paper	Leverage the EU Taxonomy as a credible benchmark
10	Previous policy paper	Enhance interoperability with key international standards and frameworks
11	Previous policy paper	Maintain minimum entity-level requirements