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Association

ICMA

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ICMA commentary and recommendations for the SFDR review

Introduction

On 20 November 2025, the European Commission (EC) published its long-awaited proposal for the review of the Sustainable Finance Disclosure Regulation (SFDR). In this note, ICMA provides its commentary and recommendations on the proposed review of the SFDR as feedback for the upcoming co-legislation process. In annexes, we provide an overview of the proposal as well as of the detailed rules on the new categorisation system.

For background, the implementation of the current SFDR has faced various challenges such as the unintended use of ESG product disclosures as de-facto labelling, complexity and excessive disclosure requirements, data unavailability, and lack of clarity and minimum standards in key regulatory concepts. These have prompted the EC to launch a comprehensive public consultation in September 2023 and the subsequent market engagement. ICMA has submitted feedback to the SFDR review process with its consultation response (Dec. 2023), its Omnibus position paper (Feb. 2025), and its dedicated publication "A time for change in the sustainable fund market - Reflections and recommendations in a new regulatory environment" (March 2025).

This note has been prepared by ICMA staff with the input of the association's key constituencies including the Asset Management and Investors Council (AMIC), the Executive Committee of the Principles, and the Regulatory Policy Committee (RPC). It does not, however, necessarily represent the view of each individual member of these committees or of the Association.

Summary of ICMA commentary and recommendations

ICMA welcomes the direction of travel of the SFDR 2.0. The EC proposal broadly accommodates the call of ICMA and broader industry for a simplified disclosure regime and a clearer ESG fund categorisation system. Regarding the latter, the proposal reflects a shift towards a more prescriptive regime when compared with the current Article 8 and 9 disclosure-based system but accommodates some important flexibilities. We provide an overview of the SFDR 2.0 changes in Annex 1 and 2.

It is important to note that the text is subject to further changes which may be proposed by the EU Parliament and the Council. Also, as per the EC proposal, a future Delegated Act (DA) may further specify the eligibility conditions and disclosures for the proposed product categories.

Our general comments on the SFDR 2.0 proposal are in summary:

- For the Transition and ESG Basics categories, we argue against the extension of the exclusion list to cover entities with legacy turnover exposure to hard coal and lignite as it could conflict with objective of accelerating their transition.

- Asset managers should have the option to count non use-of-proceeds bonds of public entities into the 70% threshold of the Sustainable and Transition categories based on the principle of "proper justification" which is already embedded in the proposal, backed with transparent methodologies.
- Effective implementation should be ensured notably through the immediate application of the simplification measures (including the removal of entity-level Principle Adverse Impact (PAI) disclosures) and the timely publication of the operational Delegated Act(s), if any.
- Many market participants call for further voluntary guidance on some key terms, such as what it means to have a "credible" transition plan based on usable, practical, and inclusive definitions considering also international guidance in the space.
- The EU can encourage, on a voluntary basis, a universal disclosure for all relevant funds to disclose their exposure (%) to entities with credible transition plans/targets for their investments in high climate impact sectors.

Our specific comments regarding the treatment of use-of-proceeds (UoP) bonds and funds are in summary:

- While eligible investment types, standards, indicators, and tools for each new product category are not specified in an exclusive manner, we recommend explicit recognition of sustainable bonds aligned with established and credible market standards such as the ICMA Principles[1].
- The exemptions foreseen for EU Green Bonds (EuGBs) from several exclusions should also apply to all UoP bonds aligned with established and credible international standards such as the ICMA Principles.
- For both EuGBs and ICMA-aligned UoP bonds, the new exclusions triggered by greenfield fossil fuel supply projects and coal power should not apply at the entity-level under Transition and Sustainable categories if the new project is not related to hard coal and lignite and the issuer is pursuing a credible transition trajectory backed by an entity-level strategy/plan. As a potential unintended drafting, the proposed EC draft currently implies a stricter regime for the Transition category than the Sustainable one, and therefore requires clarification or correction.
- Under the future potential Delegated Act(s), permitted limited deviation from the Paris-aligned Benchmarks exclusions should be introduced for the Sustainable category for Green UoP bonds which allocate only a small (non-meaningful) portion of their proceeds to climate transition projects in line with the ICMA's recently published Climate Transition Bond Guidelines. The limited flexibility pocket introduced by Article 5 of the EuGB Regulation for EuGBs may serve as a precedent to that effect.

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[1] The ICMA Principles refer to the Green Bond Principles, the Social Bond Principles, the Sustainability Bond Guidelines, the Sustainability-Linked Bond Principles, the Climate Transition Bond Guidelines, and other relevant guidance which is administered and supported by the ICMA.

ICMA commentary and recommendations for the SFDR 2.0

ICMA welcomes the direction of the travel of the proposed SFDR 2.0. The proposed measures and provisions are broadly in line with the ICMA's recommendations outlined in its response to the comprehensive SFDR consultation (December 2023), its Omnibus position paper (February 2025), and its dedicated report "A time for change in the sustainable fund market - Reflections and recommendations in a new regulatory environment" (March 2025). We provide an overview of the SFDR 2.0 changes in Annex 1 and 2.

On the categorisation system, the proposed regime aims to introduce a clearer and more prescriptive categorisation, with however some important flexibilities. This is in line with the ICMA's support for a categorisation system that goes beyond the current disclosures-based system while avoiding an excessively restrictive approach. Although more detailed conditions may be set under Level 2 through Delegated Act(s), the new product categories are designed with an inclusive approach. For example, the list of eligible investment types accommodates many diverse ESG investing approaches while also being non-exhaustive. The categories and the 70% threshold are broadly consistent with the UK FCA's labelling regime while this threshold can also be achieved in a phased manner allowing the implementation of the investment strategy.

The EU tools and labels such as the Climate Transition Benchmarks (CTB)/Paris Aligned Benchmarks (PAB) and the EU Taxonomy, while granted with great recognition under the proposed categories, are not considered as the exclusive measures of sustainability. Under the Transition category, the introduction of which ICMA strongly supported, Paris-aligned transition plans, targets, and/or investments are recognised. Future DA(s) may also further specify the permitted deviations from the exclusions provided for each category.

The simplification measures are also broadly aligned with the ICMA recommendations. In our 2023 SFDR response, we had argued for shortened, streamlined, and proportionate disclosures focused on most material aspects while questioning the added value of the entity-level disclosures. Some asset managers are however against the removal of portfolio management services from the SFDR 2.0's scope arguing for harmonised treatment between mandates and funds which are offered as part of the same advisory process for private clients.

There are areas where the proposal could be further improved or clarified. We present our comments and recommendations distinctly for **(1)** the general aspects of the proposal and **(2)** specific issues regarding the treatment of UoP bonds and funds.

1. Comments and recommendations for the general aspects of the SFDR 2.0

Exclusions

For the Transition and ESG Basics categories, the exclusion list should not extend to entities with legacy turnover from hard coal[2] or lignite supply[3]-related activities as this conflicts with the objective of accelerating their transition away from fossil fuel supply chains. At a minimum, if it is

[2] More generally, we note that some market participants question the rationale of the CTB/PAB exclusions to refer exclusively to "hard coal" given the high relevance of other main coal types such as bituminous and sub-bituminous.

[3] The reference in this paper to the term "supply" of fossil fuel activities covers upstream and midstream activities such as exploration, mining, extraction, distribution, refining.

maintained, there should be an exception to this exclusion where entities commit to transition/exit plans from such activities.

Treatment of non-UoP instruments of public entities

Asset managers should have the option to count non UoP bonds of public entities into the 70% threshold of the Sustainable and Transition categories based on the principle of "proper justification" which is already included in the proposal and backed by transparent methodologies. Nonetheless, they should also be able to opt out and exclude the non UoP bonds of public entities, and/or those of sovereigns, from the assessment scope. In this case, to avoid unintended disincentives against investment in public sector debt, such bonds would need to be excluded both from the numerator and the denominator and not count into the 30% pocket.

At a minimum, if the current restriction is maintained, sustainability-linked bonds of public entities aligned with international standards such as the ICMA Principles should be allowed in the Transition category.

We note that under current market practice, many asset managers consider non UoPs bonds of Multilateral Development Banks as Sustainable Investments where they have exclusive and clear development finance mandates and stringent environmental and social standards. The strict exclusion of sovereigns and other public entities could also prevent further innovation notably around the emerging transition plan norms and frameworks for them and lead to the exclusion of sovereign sustainability-linked bonds of which many have been issued from the Transition category. Non use-of-proceeds instruments of public agencies dedicated to sustainability or climate mandates would also face exclusion. It is noted that such exclusion would also create inconsistency with existing national and market labels which do not outright prohibit public entities' non use-of proceeds bonds.

Voluntary disclosure for all relevant funds

In the same line as ICMA positions stated in our SFDR consultation response (p.3 and 52), Omnibus paper (p. 12-13) and sustainable fund report (p. 15), the EU can encourage, on a voluntary basis, a universal disclosure for all relevant funds to disclose their exposure (%) to entities with credible transition plans/targets for their investments in high climate impact sectors.

Successful measures leading to the adoption of transition plans would advance the SFDR's objective of attracting additional capital for sustainability and transition. Transition plans are essentially investments plans (CapEx and OpEx) and could therefore contribute to the overall competitiveness objective by generating additional economic activity and demand from enabling sectors (see ICMA QR Article p.53-54).

Effective implementation

The SFDR 2.0 simplification changes such as those on the **scope reductions and disclosure deletions (including the removal of entity-level PAI disclosures) should be immediately applicable**.

Sufficient transition period should also be allowed for market participants to adjust their current ESG fund categorisation, disclosures and practices. Conversely, asset managers should be allowed to implement the SFDR 2.0 rules on categorisation and related disclosures earlier than the end of the transition period if they choose to do so.

Furthermore, sufficient lead time should also be allocated for consumer testing particularly in relation to how product distributors identify the products that match investors' sustainability preferences based on the categories and ensure that investor-facing information can be easily understood. Consumer testing should be conducted prior to finalising all the relevant regulations (e.g. once political agreement has been reached). Consideration should also be given on including UCITS fund of funds and UCITS multi-manager/third party manager in the categories (insurance and pension products) for which more time is allowed.

Future **DA(s) should be timely published** to avoid "double implementation" which occurred for the current SFDR because of the time gap between the Level 1 and Level 2 texts. This should include the required amendments to MiFID and IDD in relation to sustainability preferences. It is important that the effective dates SFDR Level 1, Delegated Acts, and MiFID/IDD sustainability rules are well aligned.

An inclusive approach should underpin the future DAs further specifying the eligible investments and other conditions of categories and not result in an overly restrictive ESG fund space.

Accordingly, many market participants call for further voluntary guidance on some key terms, such as what it means to have a "credible" transition plan or science-based target. Usable, practical, and inclusive definitions could help achieve consistency in practices and help with the implementation of the SFDR 2.0. Nonetheless, such guidance should avoid being EU-centric and recognise international standards and frameworks as well as other credible initiatives, such as the ISSB's IFRS S2, ICMA Climate Transition Finance Handbook, UK Transition Finance Council's publications, and the ASEAN Transition Finance Guidance v.2.

Other issues

The following matters can be further considered and clarified including under future DA(s):

- There should be some permitted deviations from the OECD Guidelines exclusion in cases of passive breaches. Such calibration is essential for pension funds and long-term asset managers to assess the operational feasibility of the new product categories, notably for illiquid legacy investments in private markets.
- It should be possible to communicate on "impact" investments also as part the ESG Basics category given that an ESG Basics fund is allowed to invest in a Sustainable or Transition fund with impact investment focus.
- Regarding the new Article 6(a), some asset managers find the current wording too restrictive arguing that products which only apply clear exclusions or ESG integration parameters in a transparent manner should be able to communicate about such asset selection methodology. It could therefore be further clarified that short, factual and objective statements are permitted in non-categorised Article 6 funds.

2. Comments and recommendations for the UoP bond and funds

Explicit recognition of credible market standards and other credible tools

We welcome the fact that eligible investment types and sustainability standards, indicators, and tools provided for each category are not meant to be exhaustive. **Furthermore, as ESG funds in Europe will have in many cases non-EU assets and exposures, we recommend broadening the list beyond the EuGBs and the EU Taxonomy to recognise internationally well-established instruments and**

tools in sustainable finance. This would enhance the international operability of the new categorisation system.

In this respect, there should be explicit reference to and recognition of established and credible international sustainability and transition standards such as the ICMA Principles under these categories. This would be in line with the current market practice as our sustainable funds report (see. p.18 and 26) has shown that many asset managers treat green, social, and sustainability bonds aligned with the ICMA Principles as Sustainable Investment for the current Article 9 products, subject to their further internal assessments.

Green, social, and sustainability bonds would likely be seen most relevant to qualify for the Sustainable category while sustainability-linked bonds for the Transition category. It is important to note the relevance of the existing USD5.3 trillion sustainable bond market as a major international investment pool for ESG funds. In 2024, 97% of global sustainable bond issuance volume aligned with the ICMA Principles. In 2025, the annual sustainable bond issuance was at USD976 billion, representing 10% of global bond issuance (see ICMA QR p.47).

Most recently, the Principles released the Climate Transition Bond Guidelines (CTBG) which provide a standard for Climate Transition Bonds which may become especially relevant as a financial instrument to underpin the new proposed Article 7 "Transition" category.

Similarly, references should also be made to other international and jurisdictional taxonomies, decarbonisation pathways and roadmaps, and other policy frameworks (e.g. UK Transition Finance Council's work on transition). This would imply an equivalency mindset, in line with our views presented in Omnibus position paper (p.10) and sustainable funds report (p.22), and an inclusive approach towards other credible taxonomies and regional or jurisdictional frameworks where they include adequate safeguards against carbon lock-in risks. In its Transition Finance report (November 2025), the International Energy Agency recommended, among other things, the mutual recognition of and equivalency between different national and regional transition finance frameworks, including to facilitate the much needed cross-border climate capital flows (see notably p.74-77 and 82-83).

Application of category exclusions to UoP bonds (EuGBs and ICMA Principles-aligned)

Generally, the exemptions foreseen for EuGBs from several exclusions should also apply to all bonds aligned with established and credible international standards such as the ICMA Principles and where the ultimate use of proceeds is known. At minimum, such exemptions should be extended to all EU Taxonomy aligned bonds and/or projects, including those that are not financed by EuGBs. This could lead to greater explicit referencing of the EU Taxonomy in green, sustainable, and climate transition bond frameworks where the issuer does not aim to use the EuGB label initially.

For both EuGBs and ICMA-aligned UoP bonds, the new exclusions triggered by greenfield fossil fuel supply projects and coal power should not apply at the entity-level under Transition and Sustainable categories if the new project is not related to hard coal and lignite and the issuer is pursuing a credible transition trajectory backed by an entity-level strategy/plan. It is also important to note that some market participants argue that such exclusions should apply only in relation to upstream activities for new supply but not for some midstream activities (e.g. distribution and transportation).

Under the EC proposal, we believe there is currently a possibly unintended discrepancy where under the Transition category, the exclusions triggered by the development of new projects for fossil fuel supply and hard coal and lignite for power (or no phase-out from it) apply to UoP bonds (both EuGBs and ICMA-aligned) at entity-level, while these exclusions do not apply at all to UoP bonds (neither EuGB nor ICMA-aligned) under the Sustainable category. This implies a stricter regime for the Transition category than the Sustainable category, which may be unintended and therefore requires further clarification or correction.

Some market participants also called for clarity on the meaning of "new project" and whether such term would for example include material expansion in existing fossil fuel fields.

Other issues

The following matters can be further considered and clarified including under future DA(s):

- **For UoP bonds, the threshold of 15% fund-level EU Taxonomy alignment replacing the 70% eligible investment threshold should apply on a look-through basis**, i.e. based on the Taxonomy alignment of proceeds of bonds. This would be in line with the approach on the current SFDR's Taxonomy accounting for UoP bonds.
- **Permitted limited deviation from the PAB exclusions should be introduced under the Sustainable category for Green UoP bonds which allocate only a small, non-meaningful portion of their proceeds to climate transition projects[4].** For further background, the ICMA's Climate Transition Bond Guidelines (CTBG) encourage the use of a distinct Climate Transition label (vs. Green Bond) only when a "meaningful" portion of the proceeds, as determined by the issuer, are allocated to climate transition projects. Some issuers may therefore prefer to issue under Green Bonds if allocation to climate transition projects (aligned with ICMA CTBG definition) constitute a small portion of the proceeds. The limited flexibility pocket introduced by Article 5 of the EuGB Regulation for EuGBs may serve as a precedent to that effect.

[4] As an example, an O&G company looks to exit its legacy fossil fuel business in pursuit of its strategic transition plan. It may issue a Green Bond where it allocates 90% of proceeds to new renewable energy projects while the remaining 10% to impactful methane and flaring abatement in its existing O&G fields in alignment with the CTBG definition and example. Such Green Bond should not be caught by the PAB exclusions and be allowed under the Sustainable category.

Annex 1 - Overview of the SFDR 2.0 changes proposed by the EC

The proposed text introduces several important changes over the existing regime. Some of these key changes are:

- **Introduction of distinct sustainability-related product categories of "Transition" (new Article 7), "ESG Basics" (new Article 8), and "Sustainable" (new Article 9).** The proposal also provides for a definition for "impact" investing under the Transition and Sustainable categories, and rules for combined products that invest in several of these categories. All together, these will replace the current regime where disclosures for products promoting environmental / social characteristics (Article 8) and having Sustainable Investment (SI) objectives have been used in practice as if they were investor facing labels. The concept of SI will be entirely removed.

  The below table summarises the key criteria of the proposed categorisation. Importantly, more specific criteria for the eligible investments, KPIs, calculation of the relevant thresholds, format and structure of disclosures etc. may be set with future Delegated Act(s) at Level 2 (Art.19b). Gold-plating by NCAs is prohibited as they will not be allowed to introduce additional requirements. Annex 2 provides a more detailed overview of the objectives, minimum criteria and disclosures, as well as the non-exhaustive list of eligible investment types under each of these categories. See also Annex 3 for the full exclusion list of the Climate Transition Benchmark (CTB) and Paris Aligned Benchmarks (PAB) provided in Article 12(1) of the Commission Delegated Regulation 2020/1818[5].

	Transition	ESG Basics	Sustainable
Minimum threshold	Min. 70% of eligible investments to meet a clear and measurable transition objective; or alternatively, min. 15% fund-level Taxonomy alignment.	Min. 70% of eligible investments to integrate sustainability factors beyond the consideration of sustainability risks.	Min. 70% of eligible investments to meet a clear and measurable objective related to sustainability factors; or alternatively, min. 15% fund-level Taxonomy alignment.
The non-exhaustive list of eligible investment types (other investments can also qualify based on proper justification)	Portfolios replicating or managed in reference to EU CTB/PAB; Taxonomy aligned assets; assets with credible transition plans or science-based targets; assets subject to credible engagement strategies; portfolios with transition targets; investments eligible for Sustainable category.	Investments outperforming in ESG ratings or appropriate sustainability indicator(s); undertakings or activities with proven positive sustainability processes, performance, or outcomes; investments eligible for the Transition and Sustainable categories.	Portfolios replicating or managed in reference to EU PAB; Taxonomy aligned assets; EU Green Bonds (EuGBs); investments benefiting from EU guarantees or financing under environmental or social programmes; investments comparable with EU PAB/Taxonomy/EuGB

[5] In summary, the CTB exclusions apply to companies involved in controversial weapons, tobacco cultivation and production, or in violation of UNGC Principles and OECD MNE Guidelines. The PAB exclusion include the CTB exclusions as well as the companies generating revenues above certain tolerance threshold from the following activities: ≥ 1% from hard coal and lignite supply, or 10% ≥ from oil supply, or 50 % ≥ from gaseous fuels supply, or 50 % ≥ from electricity generation above 100g CO_2 e/kWh.

	For climate change mitigation, compatibility with the Paris Agreement is required.		and with high performance as per sustainability standards; EuSEFs.
Exclusions	CTB + companies with ≥ 1% of their revenues from hard coal and lignite supply activities + companies developing new fossil fuel supply projects (any type), or those developing new hard coal and lignite projects for power generation or do not have a phase-out plan from the latter.	CTB + companies with ≥ 1% of their revenues from hard coal and lignite supply activities.	PAB + companies developing new fossil fuel supply projects (any type), or those developing new hard coal and lignite projects for power generation or do not have a phase-out plan from the latter.
Identification, disclosure and mitigation of principal adverse impacts (PAI)	Required, with discretionary use of PAI indicators.	N/A	Required, with discretionary use of PAI indicators.
Disclosures	Statement of compliance, disclosures on the relevant objectives, strategies, eligible investments, KPIs, data sources, etc.		
Automatic eligibility	Products replicating or managed in reference to EU PAB/CTB automatically eligible.	N/A	Products replicating or managed in reference to PAB automatically eligible.

The application of the exclusions to use-of-proceeds (UoP) instruments is limited. EuGBs and ICMA Principles aligned UoP bonds are excluded from the Transition category if their issuers develop new projects for any type of fossil fuel supply, or new projects for hard coal and lignite for power generation, or do not have a phase out plan from the latter. This condition applies at the entity-level for the Transition category, in other words, does not necessitate the allocation of issuance proceeds to the excluded activities. Under the Sustainable category, however, our reading is that issuers of EuGBs and other UoP bonds are not subject to such entity-level exclusion. This may be unintended as the Transition category applies a tighter regime than the Sustainable one.

EuGBs otherwise benefit from a total exemption from the remaining exclusions under all categories. For ICMA Principles-aligned UoP bonds, the CTB exclusions (under the Transition category) and the PAB exclusions (under the Sustainable category) apply at the level of UoP/projects, except for the violation of UNGC Principles and OECD MNE Guidelines which applies at entity-level. This treatment is broadly in line with the ESMA Q&A of December 2024. However, under the Transition category, the exclusion list has now been extended to also cover the exposure to companies with 1% or more of their revenues from activities related to hard coal and lignite supply.

The table below summarises how these exclusions apply to EuGBs and ICMA Principles-aligned UoP bonds under each category:

<table>
<tr><th>Categories</th><th>EuGBs</th><th>ICMA UoP</th></tr>
<tr><td rowspan="2">Transition</td><td>Exempt from the CTB exclusions and the exclusion related to hard coal and lignite supply.</td><td>- Exclusion due to violation of UNGC Principles and OECD MNE Guidelines applicable at entity-level.
- Other CTB exclusions and the exclusion related to hard coal and lignite supply applicable at UoP-level.</td></tr>
<tr><td colspan="2">Excluded at entity-level, if the issuer of EuGB or other UoP bond:
- Develops any new fossil fuel supply (up/mid-stream) projects (i.e. exploration, extraction, distribution or refining for hard coal, lignite, oil, gas);
- Develops new projects for hard coal and lignite for power generation; or,
- Does not have a phase-out plan from power generation from hard coal and lignite.</td></tr>
<tr><td>ESG Basics</td><td>Exempt from the CTB exclusions and the exclusion related to hard coal and lignite supply.</td><td>- Exclusion due to violation of UNGC Principles and OECD MNE Guidelines applicable at entity-level.
- Other CTB exclusions and the exclusion related to hard coal and lignite supply applicable at UoP-level.</td></tr>
<tr><td>Sustainable</td><td>- Exempt from the PAB exclusions.
- Exempt from the exclusions linked to new fossil fuel supply projects, or new projects for hard coal and lignite for power generation or no phase out from the latter.</td><td>- Exclusion due to violation of UNGC Principles and OECD MNE Guidelines applicable at entity-level.
- Other PAB exclusions applicable at UoP-level.
- Exempt from the exclusions linked to new fossil fuel supply projects, or new projects for hard coal and lignite for power generation or no phase out from the latter.</td></tr>
</table>

- **Prohibition of claims of transition or sustainability for products that do not qualify for any of the above three categories**. In other words, any sustainability-related claim, be it in the fund name, marketing materials, or other documentation, is only reserved for categorised products. For non-categorised products, only factual sustainability information can be included in the pre-contractual disclosures and if they are not presented as a central element and not included in KIID/KID. Some other flexibility exists for non-categorised products investing in categorised products.
- **Substantial simplification of the disclosure regime** including (a) the deletion of entity-level disclosures on PAIs and remuneration policies; (b) considerable shortening of product-level disclosures to a maximum 2 pager for the future categorised products (exceptionally 3, if qualifying under the “impact” definition); (c) discretionary use of the PAI indicators in managing the adverse impact of investments at the product-level; (e) complete removal of financial advisers and portfolio management services of investment firms or credit institutions from the SFDR’s scope.

- **New rules on estimates and third-party data** which should rely on formalised and documented arrangements and methodologies and where additional transparency are provided to clients upon request on the data source, methodology, assumptions etc.

Annex 2 – Detailed overview of the categorisation rules under the SFDR 2.0 proposal

The table below provides an overview of each product category under the proposal. Please note that according to the proposal, the EC would be empowered to adopt DA(s) to further specify eligibility conditions, KPIs, and methodologies for thresholds, and format of disclosures, etc.

Product categories and relevant claims	Minimum criteria and disclosures	Eligible investments (non-exhaustive) types	Other key points
"**Transition**" (new Article 7) products which claim to be investing undertakings, activities, assets in transition towards sustainability or contributing to such transition.	**Minimum criteria:** • Min. 70% of investments to meet a clear and measurable transition objective. Alternatively, a min. 15% of EU Taxonomy alignment to be achieved at the fund level. • Exclusions of (i) companies involved in controversial weapons, tobacco cultivation and production, or in violation of UNGC Principles and OECD MNE Guidelines (all together, the "CTB exclusions")[6]; (ii) companies that derive 1 % or more of their revenues from hard coal and lignite supply; and, (iii) companies developing new projects for fossil fuel supply, i.e. the exploration, extraction, distribution or refining of hard coal and lignite, oil or gaseous fuels and those who develop new projects for, or do not have a plan to phase-out from, the exploration, mining, extraction, distribution, refining or exploitation of hard coal or lignite for power generation. See Annex 1 for the application of these exclusions to EuGBs and other UoP bonds. • Identification and disclosure of principle adverse impacts and mitigation actions. • Funds replicating or managed in reference EU CTB/PAB automatically qualify as being deemed to meet all the above criteria. • Funds using the "impact" term in names to have a pre-defined, positive and measurable social or environmental impact. **Disclosures:** (i) statement that fund meets the above criteria; (ii) description of transition-related objectives, the strategy, the choice and relative share of investments, any phase-in period to reach the thresholds necessary to implement the strategy; (iii) Taxonomy-aligned investments in meeting the 70% threshold (if fund pursues environmental objectives and uses the EU Taxonomy as eligibility criteria); (iv) KPIs for measuring the strategy and progress and actions to address underperforming assets in terms of the product objective and chosen KPIs; (v) statement of compliance with the exclusions above and additional exclusions applied, if any; (vi) data sources. For "**impact**" products with a transition objective, disclosure of and reporting on the intended impact in terms of E/S objective, underpinned by a pre-set impact theory.	While other investments can also qualify based on proper justification, the proposal explicitly lists the following: (i) portfolios replicating or managed in reference the EU CTB/PAB; (ii) EU Taxonomy aligned investments (including transitional activities and activities with CapEx plans); (iii) undertakings or activities with credible transition plans and (iv) those with credible science-based targets; (v) investments subject to a credible engagement strategy (targeting specific changes with measurements in milestones and escalation actions); (vi) investments eligible for the "Sustainable" category; (vii) investments with credible portfolio-level targets (e.g. portfolio emissions reduction). For products with climate change mitigation objective, relevant investments (e.g. assets with transition plans or targets or those subject to engagement strategies) should be compatible with the Paris Agreement and transition to a sustainable economy.	• Only UoP instruments of public entities can count in the minimum thresholds while their non UoP bonds are excluded. • Discretionary use of the PAIs indicators which may be further specified in DA(s) based on the current SFDR PAI indicators and the reviewed CSRD/ESRS.

[6] See below the Annex 3 for the exact wording of both the CTB and PAB exclusions.

"ESG Basics" (new Article 8) products which claim to be integrating sustainability factors in investment strategy beyond the consideration of sustainability risks.	**Minimum criteria:** • Min. 70% of investments to integrate sustainability factors beyond the consideration of sustainability risks. • The CTB exclusions and the exclusion of companies that derive 1 % or more of their revenues from hard coal and lignite. See the main text for the application of the exclusions to EuGBs and other UoP bonds. **Disclosures**: (i) statement that fund meets the above criteria; (ii) description of the sustainability factors integrated in the product, the strategy, the choice and relative share of investments, any phase-in period; (iii) KPIs and actions for underperforming assets; (iv) statement of compliance with the exclusions above and additional exclusions, if any; and, (v) data sources.	While other investments integrating sustainability factors can also qualify based on proper justification, the proposal explicitly lists the following: (i) ESG rating outperformance vs. an investment universe or reference benchmark; (ii) outperformance vs. universe or benchmark based on a specific appropriate sustainability indicator; (iii) investments favouring undertakings or activities with a proven positive sustainability track record of processes, performance or outcomes; (iv) investments eligible for the Transition and Sustainable categories combined with investments eligible for ESG Basics category indicated here.	• Non-UoP bonds of public entities can be included in this category.
"**Sustainable**" (new Article 9) products which claim to be investing in sustainable undertakings, activities or assets or contribute to sustainability.	**Minimum criteria:** • Min. 70% of investments to meet a clear and measure objective related to sustainability factors. Alternatively, a min. 15% of EU Taxonomy alignment to be achieved at the fund level. • **Exclusions** of (i) companies involved in controversial weapons, tobacco cultivation and production, or those in violation of UNGC Principles and OECD MNE Guidelines, or those generating their revenues from the following activities above specific thresholds: $\geq$ 1% from hard coal and lignite, or 10% $\geq$ from oil, or 50 % $\geq$ from gaseous fuels or 50 % $\geq$ from electricity generation above 100g CO2 e/kWh (all together, the "PAB exclusions"); and (ii) companies developing new projects for fossil fuel supply, i.e. the exploration, extraction, distribution or refining of hard coal and lignite, oil or gaseous fuels and those who develop new projects for, or do not have a plan to phase-out from, the exploration, mining, extraction, distribution, refining or exploitation of hard coal or lignite for power generation. See Annex 1 for the application of the exclusions to EuGBs and other UoP bonds. • Identification and disclosure of principle adverse impacts and of mitigation actions. • Funds replicating or managed in reference EU PAB automatically qualify being deemed to meet all the above criteria. • Funds using the "impact" term in names to have a pre-defined, positive and measurable social or environmental impact. **Disclosures:** (i) statement that fund meets the above criteria; (ii) description of the sustainability-related objectives, strategy, choice and relative share of investments, any phase-in period to reach the thresholds necessary to implement the strategy; (iii) Taxonomy-aligned investments in meeting the 70% threshold (if fund pursues environmental objectives) and uses	While other investments integrating sustainability factors can also qualify based on proper justification, the proposal explicitly lists the following investments: (i) portfolios replicating or managed in reference the EU PAB; (ii) EU Taxonomy aligned investments; (iii) EuGBs; (iv) investments in undertakings, projects, or portfolios who benefit from EU guarantees or financing for environmental or social programmes; (v) investments comparable to EU PAB/EU Taxonomy/EuGBs and with high performance as per sustainability standards ; (vi) investments in EuSEFs.	• Only UoP instruments of public entities can count in the minimum thresholds while their non-UoP bonds are excluded. • Discretionary use of the PAIs indicators which may be further specified in future DA(s) based on the current SFDR PAI indicators and the reviewed CSRD/ESRS.

	the EU Taxonomy as eligibility criteria; (iv) KPIs for measuring the strategy and progress and actions to address underperforming assets in terms of the product objective and chosen KPIs; (v) statement of compliance with the exclusions above and additional exclusions applied, if any; (vi) data sources. For "**impact**" products with a sustainability objective, disclosure of and reporting on the intended impact in terms of E/S objective, underpinned by a pre-set impact theory.		

Annex 3 – The PAB and CTB exclusions

Article 12(1) of the Commission Delegated Regulation 2020/1818 lists the specific exclusions for the Climate Transition Benchmarks (see items "a" to "c") and the Paris-aligned Benchmarks ("a" to "g").

Exclusions under PABs	Exclusions under CTBs
(a) companies involved in any activities related to controversial weapons; (b) companies involved in the cultivation and production of tobacco; (c) 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; (d) companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (e) companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; (f) companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; (g) companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh.	(a) companies involved in any activities related to controversial weapons; (b) companies involved in the cultivation and production of tobacco; (c) 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;