



SUSTAINABLE BANKING COALITION

Mobilising Private Capital for the Green Transition: Strengthening the SFDR for a Competitive Europe

January 2026

On 20 November 2025, the European Commission (Commission) published its [proposal](#) to revise the Sustainable Finance Disclosure Regulation (SFDR). The [Sustainable Banking Coalition](#) (SBC), representing fossil fuel-free, environmental, and social sustainability-focused financial institutions across the European Union (EU), and the [European Federation of Ethical and Alternative Banks and Financiers](#) (FEBEA) **welcome this revision as an important step forward and a critical opportunity to strengthen Europe's sustainable finance framework.**

We appreciate that the proposal (i) **clarifies three product categories**, (ii) **retains product-level Principal Adverse Impact (PAI) disclosures**, and (iii) **excludes companies expanding fossil-fuel activities from the *sustainable* and *transition* categories**. We believe that several areas can be further enhanced to ensure investors can distinguish between **greenwashing and genuine sustainability**. A revised SFDR can reward authenticity and impact, providing consumers with confidence and enabling Environmental, Social and Governance (ESG) impact-focused financial institutions to compete on a level playing field.

Key policy asks

[1] Improving the sustainable investment quota

The 70% sustainable investment quota should be increased to a **minimum of 80%**, bringing it into line with the European Securities and Markets Authority requirements.¹ Additionally, clear guidance is needed on what counts toward this quota and how it should be calculated to ensure consistent and meaningful reporting. The **methodology for calculating the quota** should be transparent and consistent, specifying whether the assessment is activity- or entity-based, and how non-sustainable assets such as liquidity, cash, or sovereign bonds are treated.

Assets that cannot qualify as sustainable should be neutral in the calculation and not inflate the denominator, ensuring that the percentage accurately reflects the sustainability of the product. Additionally, allowing a product to meet the quota with only 15% EU Taxonomy alignment is insufficiently ambitious and risks overstating the product's sustainability. **The threshold should be increased to 25%**. Data published by the Commission on 2024 show that companies already reported an average EU Taxonomy alignment of 22.7% of their capital expenditure.²

[2] Ensuring comparability across all financial products

A harmonised baseline of mandatory PAI indicators - particularly those related to greenhouse gas emissions - should be introduced and applied consistently across all products. This framework should incorporate both activity-based and due-diligence-related indicators, in line with the

¹ European Securities and Markets Authority, "Guidelines on funds' names using ESG or sustainability-related terms" (August 2024) https://www.esma.europa.eu/sites/default/files/2024-08/ESMA34-1592494965-657_Guidelines_on_funds_names_using_ESG_or_sustainability_related_terms.pdf

² European Commission, "The EU Taxonomy's uptake on the ground" (November 2025), https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities/eu-taxonomys-uptake-ground_en



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recommendations of the Platform on Sustainable Finance, combining a **fixed set of compulsory indicators** with **additional material indicators** tailored to each fund's objectives and underlying investments.³ This common baseline of transparency would **improve comparability between categorised and non-categorised products** and reduce the risk of greenwashing. It would also strengthen the assessment of sustainability preferences under the revised Markets in Financial Instruments Directive and the Insurance Distribution Directive.

In addition, all financial products, irrespective of their classification, **should be subject to mandatory EU Taxonomy alignment disclosures** to ensure consistent comparability across the market. Products that fall outside existing categories should, at a minimum, be **required to provide a core set of sustainability disclosures aligned with those of categorised products**.

The absence of a clear disclaimer for financial products that do not fall within any of the three SFDR categories heightens the risk that investors may **inadvertently choose funds that do not consider sustainability factors**. Funds with exposure to harmful activities should **include clear warnings**. This would promote accountability across the whole market and ensure investors can distinguish between sustainable, neutral, and harmful investment strategies. By omitting such safeguards, the Commission **overlooks established market practices** and risks undermining existing investment standards.

[3] Strengthening the positive screening criteria

For both the *transition* and *ESG basics* product categories, the positive screening requirements should be reinforced by **replacing the current menu of optional, non-cumulative elements with a clear set of mandatory criteria**. These requirements should be grounded in recognised and widely applied standards. Companies classified as *transition* investments should be required to either already have or formally commit to adopt and implement within two years, a credible **climate transition plan**.

[4] Establishing a trustworthy ESG basics category

The exclusions applicable to the *ESG basics* category are too limited, allowing financial products with **only minimal sustainability commitments to still be classified under the SFDR**. This renders the *ESG basics* category concerning - as a **broad catch-all without a sunset clause**, it risks becoming a long-term refuge for products seeking an ESG label without adhering to robust standards, thereby diverting capital away from genuine sustainability categories. A **sunset clause taking effect by 2030 should be introduced to prevent this category from being misused**.

The prohibition of coal investments within the *ESG basics* category is a welcome step. However, the continued allowance of oil and gas expansion activities in this category significantly **undermines the climate credibility** of the category. **Applying fossil fuel exclusions across all SFDR product categories** would ensure **consistency and avoid investor confusion**. This aligns with evidence showing that most consumers interested in sustainable finance would avoid investments in companies expanding fossil fuel use (62%) or in fossil fuel-intensive sectors (61%), reflecting strong demand for clear sustainability criteria.⁴

³ Platform on Sustainable Finance, "Categorisation of Products under the SFDR: Proposal of the Platform on Sustainable Finance" (December 2024) https://finance.ec.europa.eu/document/download/8a3d0e56-4453-459b-b826-101b1067290f_en?filename=241217-sustainable-finance-platform-proposal-categorisation-products_en.pdf

⁴ The European Consumer Organisation, "Sustainable Finance, too green to be true?" (October, 2025) https://www.beuc.eu/sites/default/files/publications/BEUC-X-2025-099_Sustainable_finance_too_green_to_be_true.pdf



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[5] Retaining fossil-fuel exclusion in transition category

We are grateful to the Commission for its commitment to phasing out fossil fuels and **prohibiting investment in new fossil fuel projects** as part of the *transition* category. Removing or weakening this element would undermine the core purpose of transition finance and risk allowing products with no credible decarbonisation strategy to enter the category.

[6] Preserving the impact option

The optional *impact* designation for *transition* and *sustainable* products should be maintained. The **existing definition of impact-focused products**, together with the enhanced disclosure requirements on how impacts are identified, measured, managed, and reported, should be retained and, where appropriate, refined. Keeping this feature will **support greater retail investor participation** and help **mobilise capital towards venture and growth investments** that finance sustainable projects.

General remarks on simplification efforts

Together with the changes introduced under the Corporate Sustainability Reporting Directive, the **removal of entity-level PAI statements** could create significant challenges for financial institutions. The proposed removal of these disclosures will significantly complicate financial institutions' ability to obtain reliable ESG data from their value chains. This challenge must be **carefully addressed in upcoming revisions** to ensure that the integrity and effectiveness of ESG regulations are preserved. However, it is crucial that this issue **does not result in any relaxation of ESG regulations for financial institutions**. The absence of this streamlined data collection mechanism **should not be used as a justification for further deregulation** within the EU's sustainability framework for the financial sector.



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febea

EUROPEAN FEDERATION OF ETHICAL AND
ALTERNATIVE BANKS AND FINANCIERS

Founded in Brussels in 2001, [FEBEA](#) is the European Federation of Ethical and Alternative Banks and Financiers.

An international non-profit organisation that brings together 32 financial institutions from 17 European countries with the aim of developing ethical and social finance in Europe.

Contact

Valentina Patetta – Policy Manger
valentina.patetta@febea.org



Sustainable Banking Coalition

The [Sustainable Banking Coalition](#) is an informal grouping of fossil fuel-free, environmental and social sustainability-focused banks, neobanks and financial institutions.

Our aim is to influence the development of key EU sustainable finance and banking policies and drive capital towards sustainable initiatives.

Contact

Cornelius Müller – Policy Officer
cornelius@sustainablepublicaffairs.com