

SFDR 2.0 Trialogue Negotiations: Key Areas of Focus for Fund Managers

September 2026

Last November, the European Commission (**Commission**) published a **legislative proposal** to overhaul the SFDR regime with the objective of helping investors to better understand and compare sustainability-related financial products and reducing the administrative burden on those financial market participants managing those products.

In June of this year, the Council of Europe (**Council**) published its **general approach** on the proposals put forward by the Commission while the European Parliament's Economic and Monetary Affairs Committee (**ECON**) voted on its **negotiating mandate** on 10 September last, paving the way for trialogue negotiations between the institutions to begin next month. The Irish Presidency of the Council has indicated that it aims to reach agreement on the SFDR 2.0 reforms by 31 December next when its term ends.

Following late changes to the Parliament's compromise text, the Council and the Parliament positions now align in a number of important areas.

Notably, both institutions have proposed that AIFs marketed solely to professional investors should be able to opt out of the SFDR framework should they wish to do so.

In addition, they have reached a common position on the ability of a categorised product to invest in general purpose debt of public sector bodies. Both institutions propose allowing ESG Basics funds to categorise such investments towards their contribution threshold while Transition funds should also be able to invest up to 15% of their portfolio in the general purpose debt of EU public sector bodies. Both institutions have taken the view that Sustainable funds should not be able to count such investments towards their contribution threshold under the revised framework.



Looking ahead to the triologue negotiations, we have set out below some of the key unresolved areas which fund management companies and their delegates (**Fund Managers**) should monitor in the course of those negotiations.

Topic	Positions adopted by the Council and the Parliament	Dillon Eustace Commentary
Exclusion criteria applicable to Transition funds	Likely the area of most concern for Fund Managers implementing transition strategies, both institutions have proposed greater flexibility as regards the ability of Transition products to invest in fossil fuel issuers in certain limited circumstances. The Council has proposed that Transition products should be able to invest in fossil fuel issuers where they (i) allocate at least 20% of their CAPEX to EU-taxonomy aligned activities and (ii) have a time-bound and measurable strategy to reduce their Scope 1 and Scope 2 greenhouse gas emissions. The Parliament aligns itself with the Council's proposal but goes significantly further by requiring that (i) any such fossil fuel issuers also allocate a higher percentage of CAPEX to EU taxonomy-aligned activities than new fossil fuel projects over a three-year rolling period and (ii) the issuer has made a commitment to phase out the use of hard coal or lignite if used for power generation purposes.	The more flexible proposal put forward by Council is likely to be more palatable to Fund Managers. However, Fund Managers implementing global or emerging market transition strategies may have concerns over the EU-centric nature of the CAPEX contribution requirement given expected associated data challenges
UNGP/OECD Guidelines Violators	For all categorised products, the Parliament has also proposed a less onerous exclusion in respect of violators of the UNGP Guiding Principles or OECD Guidelines than that proposed by the Commission and the Council. Under its proposals, any categorised product cannot invest in an issuer which is found in violation of those UNGP principles or OECD Guidelines in respect of "<i>severe human rights and humanitarian law abuses which have not been effectively addressed, and where appropriate, remediated</i>".	This divergence from the exclusion criteria set down in the EU Benchmarks framework, if implemented as proposed by the Parliament, may create operational complexity for funds tracking an EU Paris-aligned/EU Climate Transition benchmark or for funds which are subject to the ESMA fund naming guidelines unless the EU Benchmarks framework is amended in the same way. In particular, such funds may need to apply and monitor two overlapping but non-identical exclusion tests in respect of UNGP/OECD violations.
PAI Reporting at Product Level	While the Commission proposed removing fund-level PAI reporting in its entirety, both the Parliament and the Council have reintroduced it. ESG Basics: The Parliament has proposed an obligation to report against fossil fuel	The framework proposed by the Council provides more flexibility to Fund Managers, allowing them to report against PAI most relevant to the fund's investment strategy and bringing the ESG Basics category outside of the scope of the PAI reporting obligations.

	exposure with the ability to voluntarily report against other relevant indicators. The Council does not impose any PAI reporting obligations on this category of fund. Transition: Under the Parliament's proposal, Transition products will be required to report against (i) GHG emissions, (ii) fossil fuel exposure and (iii) one other relevant indicator selected from a list of indicators set down in delegated acts. The Council has proposed that Transition products be required to report against three relevant indicators from the delegated act, with the ability to use alternative indicators if able to demonstrate that none of the indicators set down in the delegated acts are relevant. If investing in fossil fuel companies, Transition products would also be required to report on the proportion of investments in such companies. Sustainable: The Parliament has proposed that sustainable products be required to report against (i) fossil fuels, (ii) GHG emissions, (iii) biodiversity and (iv) UNGP/OECD compliance monitoring frameworks. On the other hand, the Council has proposed giving Fund Managers more discretion, requiring them to select at least three indicators from the list set down in delegated acts, with the ability to use alternative indicators if able to demonstrate that none of the indicators set down in the delegated acts are relevant.	
Engagement Strategy Disclosure	The Parliament has proposed that all categorised funds be required to describe their sustainability-related engagement strategy. To the extent that a categorised fund does not pursue an engagement strategy, the Parliament has suggested that it should provide a "clear and reasoned explanation" of why it does not pursue such a strategy. The Council has not proposed imposing such a mandatory disclosure obligation on all categorised funds.	We expect this to be a key area of negotiation during the dialogue negotiations with Fund Managers concerned that the proposal put forward by the Parliament could disadvantage those funds which do not implement an engagement strategy. This is likely to be of particular concern for certain investment strategies where issuer engagement is inherently more difficult, such as passive, quantitative fixed income or fund-of-fund strategies.
Criteria applicable to ESG Basics funds	The Parliament has proposed tightening the ESG Basics category by imposing two additional conditions over and above those suggested by either the Commission or the Council.	This is likely to be monitored closely by Fund Managers currently implementing Article 8 strategies under the existing framework, particularly where those products may be expecting to fall within the ESG Basics

	These include an obligation to report on (i) the extent to which the fund invests in EU Taxonomy-aligned investments and (ii) the fund's exposure to companies active in the fossil fuel sector.	category under the revised regime. The Parliament's proposed additional conditions may reduce the relative simplicity of that category.
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What next?

As noted above, triologue negotiations are expected to begin in mid-October with the intention that they conclude by year-end. If that timetable is met, we expect the finalised legislative text to be published in the Official Journal of the EU in Quarter 1 2027, with the new categorisation framework applying from Quarter 1 2029¹.

Conclusion

There are a number of key issues of interest for Fund Managers which will need to be resolved during the upcoming triologue negotiations. Fund Managers should continue to monitor the negotiations closely. We will keep you updated as these negotiations progress but, in the meantime, if you have any questions arising from this briefing, please get in touch with your usual contact in the Dillon Eustace Asset Management and Investment Funds team.



1. The removal of certain existing reporting obligations such as the disclosures at entity-level on principal adverse impacts and remuneration policies from the SFDR framework will apply from the date of entry into force of SFDR 2.0, likely to be Quarter 1 2027 if triologue negotiations conclude by the end of this year.

CONTACT US

Our Offices

Dublin

33 Sir John Rogerson's Quay
Dublin 2
Ireland
Tel: +353 1 667 0022

Cayman Islands

Landmark Square
West Bay Road, PO Box 775
Grand Cayman KY1-9006
Cayman Islands
Tel: +1 345 949 0022

New York

33 Irving Place
New York
NY 10003
United States
Tel: +1 646 770 6080

CONTACT POINTS

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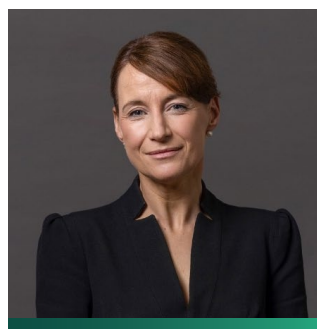
Aisling O'Malley
Partner | Dublin

E aisling.omalley@dilloneustace.ie
T +353 1 673 1733



David Walsh
Partner | New York

E david.waksh@dilloneustace.ie
T +1 646 770 6080



Áine McCarthy
Of Counsel | Dublin

E aine.mccarthy@dilloneustace.ie
T +353 1 673 1861

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