Review of the Sustainable Finance Disclosure Regulation (SFDR)

Key Messages from the Insurance Industry

Why does it matter?

Clear communication with consumers

Current disclosures are long and complex. A simpler SFDR would help insurers provide information consumers can better understand and use to help them make informed investment decisions.

Insurers' sustainability role

Insurers play a key role in financing Europe's transition to sustainability by channelling citizens' savings into long-term investments. Managing €9.5 trillion in assets, with a substantial share allocated to EU corporate and sovereign bonds, insurers enable citizens to save for retirement and participate in capital markets while benefiting from protection features, including guarantees and risk-sharing mechanisms. The SFDR should appropriately recognise the sustainability characteristics of these long-term investment portfolios and support insurers' contribution to financing Europe's economy and sustainability transition.

The European Commission (EC) proposal and the Council and European Parliament (EP) positions include important improvements that should be preserved in the final framework:

The EC proposal introduces important simplification measures, including:

- A concise, two-page disclosure framework;
- Clearer product categories;
- Removal of entity-level disclosure requirements;
- No Regulatory Technical Standards (RTS) for the "do no significant harm" principle; and
- Retention of Level 2 powers by the Commission.

The co-legislators' positions include further helpful elements, notably:

- Greater flexibility for the transition category, including the possibility to invest up to 15% in EU general-purpose sovereign bonds and the eligibility of certain fossil fuel exposures;
- Application of burden-reduction measures from entry into force, with a 24-month implementation period;
- The EP's proposed removal of the ESAs' mandate on sustainability-related names and marketing, as well as its recognition of active stewardship and engagement within the transition category; and
- The Council's clarification of the integration of multi-option products (MOPs).

The further targeted refinements below are needed to ensure the framework is workable for insurers.

General-Purpose Sovereign Debts (GPSD)

Why does it matter?

- **Core to insurers' balance sheets:** Sovereign bonds support long-term liabilities, diversification and stability.
- **Protect consumers and support guarantees:** Sovereign bonds contribute to insurers' ability to provide long-term guarantees to policyholders. Excluding them could undermine the ability to provide guarantees, and push portfolios towards riskier asset allocations.
- **Transparency and public finance:** Measuring and reporting on sovereigns' sustainability is essential for credible disclosures and visibility over public financing.



How to fix it

- **Equal treatment:** Sovereign exposures should be eligible across all product categories, supported by transparent, credible and market-driven methodologies. We strongly welcome the Council's and EP's proposal for targeted eligibility pathway under the Transition category for EU GPSD, enabling the use of existing methodologies. This approach should be retained and extended to the Sustainable category.
- **Flexibility:** Where no methodology is available, there should be an option to exclude those exposures from both the numerator and denominator, provided their share is clearly disclosed.

Multi-Option Products (MOPs)

Why does it matter?

- **Enabling sustainable investment choices:** MOPs give policyholders a range of options on how to direct their long-term savings, including for retirement, reflecting their sustainability preferences.
- **Refinements for insurance products:** While the review rightly seeks to include MOPs under Article 9a, it remains largely designed for fund-of-funds structures.

How to fix it



- **Classify at option level:** A dedicated Article 9b should establish that sustainability categories for MOPs are primarily determined at the level of the underlying investment options, while allowing transparent product-level communication on their characteristics. Where all underlying options meet the relevant criteria, the product itself should also be eligible for categorisation. Building on the Council's approach under Article 9a(1), this would best reflect the structure and operational realities of insurance-based investment products, while ensuring clear and comparable information for retail investors and a level playing field across product types.
- **Adapt the Article 6a statement for MOPs:** MOPs offering underlying investment options with sustainable, transition or ESG Basics characteristics should not be required to state that the product does not meet the minimum criteria to qualify as a sustainability-related financial product, as introduced in the Council's position under Article 6a. The statement should be removed or appropriately adapted for MOPs.
- **Clear and workable disclosures:** Transparent product-level communication on the characteristics of classified options is essential. The text should explicitly allow the use of hyperlinks in pre-contractual and periodic disclosures for MOPs, enabling investors to access information provided by the product manufacturer for each underlying investment option.
- **Product-level classification:** Classification at product-level should also be allowed where 100% of the available investment options are categorised.

Product-level Principal Adverse Impacts (PAIs) and entity-level disclosures

Why does it matter?



- **Preserve simplification:** Reintroducing mandatory entity- and product-level PAI disclosures would undo a key simplification in the EC proposal and add complexity without clear evidence of improving consumer understanding or investment decisions.
- **Keep entity and product disclosures distinct:** SFDR should remain focused on product-level disclosures, while entity-level sustainability reporting should be addressed through the CSRD framework.
- **Maintain flexibility at product level:** Optional product-level PAIs allow relevant indicators to be selected to reflect different sustainable investment strategies, while providing flexibility for new strategies and product innovation.

How to fix it

- **No mandatory PAI reporting:** Entity-level disclosures should be removed and product-level PAI disclosures should remain voluntary, in line with the EC's simplification objectives.
- **If mandatory disclosures are retained:** Limit them to a small set of relevant indicators, maintain flexibility to accommodate sectoral differences and investment strategies, and allow opt-outs where indicators are not material. Any mandatory set should remain focused on core metrics such as GHG emissions, GHG footprint and fossil fuel exposure.

Transitional arrangements and exemptions

Why does it matter?

- **Flexibility needed for an orderly transition:** A flexible approach (comprising adequate transitional arrangements, that may take the form – for example – of voluntary exemptions/grandfathering) is welcome regarding the already-distributed products disclosed under the current SFDR framework. The voluntary exemption for closed-ended products contained in Article 17(1) adequately addresses this issue.



- **Enable suitable solutions for different products and markets:** The optional Article 17 (1) allows for a consumer-oriented and practicable approach for every product already commercialised and no longer open to new investors at the date of application of SFDR 2.0.

How to fix it

- **Legal certainty and transition:** We welcome the co-legislators' alignment on applying burden-reduction measures from the date of entry into force, combined with a 24-month implementation period. While we also welcome the Commission's proposed voluntary exemption for closed-ended financial products created and distributed before the revised framework applies, the Council's proposal provides greater clarity by specifying that these products must be closed to new investors and no longer offered after the date of application. This clarification should be retained in the final framework. It should also be specified that such products may remain open to additional contributions by existing clients.

Other considerations

Exclusions under the transition category

The industry welcomes the EP's recognition of active stewardship and engagement as a means of supporting real-world transition, particularly where data remains incomplete. Other improvements include the Council and EP proposals which allow certain companies with fossil fuel-related revenues to remain eligible where they invest in Taxonomy-aligned activities and pursue a credible decarbonisation strategy. However, the EP's additional CapEx requirement should not be retained, as it could unnecessarily restrict transition financing by prescribing how companies demonstrate progress.

Furthermore, exclusions under Article 7 should be aligned with Climate Transition Benchmarks (CTBs), while remaining workable across asset classes. Broad exclusions covering coal, oil, gas and utilities could exclude sectors that require financing to transition, potentially undermining the purpose of a transition category. It should also be recognised that data gaps, including on electricity emissions, CO2 metrics and transition plans, make the requirements difficult to apply.

Opt-out for professional investors

The opt-out introduced by the co-legislators raises questions regarding its scope and potential implications for insurers as professional investors. If limited to product manufacturers, the opt-out could unnecessarily restrict the investment universe available to professional investors, particularly in markets with significant government bond exposures, which would already largely fall outside the categorisation framework.

The opt-out should be extended to professional investors. Accordingly, it should be clarified that the exemption applies to both product manufacturers and professional investors, including insurers investing in such products. This would preserve the investable universe and ensure that investments in opt-out products do not affect product eligibility or categorisation.

ESG basics: transparent communication on investment mix

ESG Basics products may meet the 70% threshold through a combination of investments meeting the ESG Basics, transition and sustainable criteria. While the first paragraphs of Articles 7 and 9 appear to prevent providers from communicating this investment mix to customers, the framework should explicitly allow such communication for products categorised under Article 8.

Ongoing compliance

Market movements, changes in investee companies or portfolio rebalancing may temporarily affect a product's ability to meet categorisation requirements. Beyond the initial transition, a reasonable recovery period should allow products to address temporary non-compliance with categorisation requirements.

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insurance europe
www.insuranceeurope.eu
Insurance Europe
Rue du Champ de Mars 23
B-1050 Brussels - Belgium