SFDR 2.0: The real test lies in private markets

Christian Schütz, Head of Sustainable Investing at Golding Capital Partners

Translated from German – originally published in Börsen-Zeitung, September 2026

With the planned reform of the Sustainable Finance Disclosure Regulation (SFDR), the European Union aims to address a fundamental misunderstanding. The current SFDR was designed as a transparency framework for investments with sustainability-related characteristics. In practice, however, the market has increasingly treated it as a labelling regime. SFDR 2.0 seeks to replace this ambiguity with a clearer categorisation system. The proposed framework introduces the categories "Sustainable", "Transition" and "ESG Basics". In principle, each category would require a minimum allocation of 70%, supplemented by mandatory exclusions.

The underlying idea is sound. Clear and binding categories can improve comparability and make ESG characteristics easier to understand and assess. At the same time, the focus shifts significantly: sustainability would no longer be defined primarily through disclosures and transparency, effectively leaving investors to draw their own conclusions. Instead, it would be characterised by specific requirements applied to investment strategies. This is more than a technical adjustment. It represents a fundamental change in approach.

The proposal is not yet law. Several key aspects remain unresolved, and in our view certain details require further refinement. The reform is currently progressing through the legislative process in Brussels. The position of the European Parliament is still pending, and the responsible ECON Committee is expected to discuss the proposal in September. Only after that can trilogue negotiations begin. Nevertheless, asset managers should already familiarise themselves with the potential new framework, even if some individual provisions may still change.

From a private markets perspective in particular, a number of important questions remain open. In several respects, the proposal appears to be shaped too strongly by the realities of liquid public markets. This becomes evident when considering exclusion criteria and minimum allocation thresholds. In listed securities portfolios, breaches can theoretically be addressed relatively quickly through portfolio adjustments. In less liquid markets such as private equity, private credit or infrastructure, the situation is fundamentally different. Investments are typically held for many years. An asset cannot simply be sold at short notice without potentially creating economic, legal or operational consequences.

This issue becomes especially relevant in the case of passive breaches. A company may fully comply with all requirements at the time of investment but subsequently develop in a way that causes it to violate certain exclusion criteria or international standards. For illiquid investments, an immediate divestment would often be neither realistic nor consistent with the principles of responsible ownership. Instead, private markets investors typically have governance rights and influence mechanisms at their disposal. They can engage with companies, agree on corrective measures and support change processes. However, this takes time. Future regulation should therefore allow for temporary deviations, provided these are clearly defined and accompanied by transparent and credible remediation measures.

A similar challenge arises with the proposed 70% minimum allocation threshold. Private markets portfolios are built up over a number of years and subsequently realised over time. During these phases, investment levels naturally fluctuate. Applying a rigid point-in-time assessment would not adequately reflect how such funds operate in practice. The regulatory framework should therefore place greater emphasis on the realities of investing in closed-ended funds.

A more nuanced approach is also needed regarding the proposed opt-out for certain specialised alternative investment funds (AIFs). The Council has suggested allowing managers of specific funds aimed at professional investors to opt out of the new categories altogether. A blanket exemption, however, would not be particularly helpful. Institutional investors still require robust information for their due diligence processes and reporting obligations. Different regulatory regimes could create additional complexity, for example where retail products invest in private markets funds. Ultimately, the key issue is not whether a fund formally falls within a particular category, but whether the requirements themselves are designed in a consistent and practical manner.

One positive aspect of the reform is its stronger recognition of transition investing as a distinct investment approach. This is particularly relevant for private markets, where the greatest impact often does not result from investing exclusively in assets that are already highly mature and well positioned. Significant impact can also be generated by supporting measurable improvements in companies or infrastructure assets over many years. The crucial requirement is that these transition pathways are clearly defined and can be effectively monitored and verified.

This leads to a more fundamental point: a regulatory label can never replace investment analysis. In private markets, meaningful sustainability assessments are built on the depth and quality of due diligence. Data must be collected at the company and asset level, properly interpreted and continuously updated over many years. Sustainability objectives must be embedded in investment decisions, governance structures and ongoing portfolio management. As a result, the implementation capabilities of an asset manager will become even more important under SFDR 2.0 than they are today.

SFDR 2.0 provides a valuable impetus. Clearer categories and a reduced emphasis on disclosure alone have the potential to make the system easier to understand. However, if the framework is to work effectively for private markets, which play a critical role in the transformation of economies and infrastructure, it must better reflect their specific characteristics. What is needed are not special rules, but rules that acknowledge fund life cycles, active ownership and the practical realities of long-term investing. Only then can a promising regulatory concept evolve into a truly workable framework.