

Sustainable finance reform must not institutionalise greenwashing

EDHEC Climate Institute welcomes progress in the ECON draft report on the SFDR revision and calls for a stronger link between financial product categories, investment strategies and plausible real-economy outcomes to prevent greenwashing and support real-world transition.

The European Parliament's Committee on Economic and Monetary Affairs (ECON), chaired by French MEP Aurore Lalucq, begins discussing the revision of the Sustainable Finance Disclosure Regulation (SFDR) today, with Dutch MEP Gerben-Jan Gerbrandy's draft report due to be presented to the committee.

EDHEC Climate Institute welcomes the direction of travel in the draft report and calls on Members of the European Parliament to ensure that the revised framework protects investors against greenwashing while supporting the European Union's transition and sustainability agenda.

SFDR is the EU's main rulebook for sustainability-related disclosures by investment products. It is meant to help investors understand whether, and how, a fund or other financial product pursues a sustainability objective or otherwise takes sustainability into account. The regulation was designed to improve transparency and comparability, and to reduce the risk that products are marketed as "green" without proper substantiation.

The SFDR revision marks an important shift from a disclosure-based regime towards a product categorisation framework. This is a necessary development. The current framework was conceived as a transparency regime, but its disclosure categories have been widely used in practice as de facto product labels. Introducing dedicated product categories backed by minimum criteria and stronger rules on sustainability-related claims can facilitate investors' product selection and contribute to market integrity.

The ECON draft report builds on the European Commission proposal and would further strengthen the revised framework. EDHEC Climate Institute welcomes several of its improvements, including stronger substantiation requirements, enhanced comparability, greater attention to engagement disclosures, clearer treatment of non-categorised products and the removal of automatic safe harbours for products tracking or managed in reference to EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks.

The latter is particularly important. Products that reduce reported portfolio emissions by adjusting holdings, including those based on EU climate benchmarks, should not be exempted from demonstrating that they satisfy the criteria of the proposed transition and sustainability categories. Removing unjustified shortcuts is a necessary credibility improvement. But it is not the same as establishing a positive test of real-economy relevance.

The central question for the revised SFDR, especially for products in the proposed transition and sustainability categories, is not only whether products meet formal category criteria, but whether product classification is grounded in a coherent and assessable relationship between the category objective, the product objective, the investment strategy, the implementation process, the indicators used to assess progress, and the product's plausible real-economy implications.

"SFDR 2.0 can be a major improvement for investor protection and market integrity," said Frédéric Ducoulombier, Programme Director at EDHEC Climate Institute. "But the European Parliament should complete the logic of the reform: clearer categories, stronger exclusions and the removal of benchmark safe harbours are welcome, but

products should also have to explain how their objectives and strategies can plausibly support real-economy transition or sustainability outcomes.”

This requirement should not be limited to the narrow subset of products with explicit impact objectives. Any financial product making sustainability- or transition-related claims should explain the mechanisms through which its strategy is expected to support those claims, including how capital allocation and, where relevant, stewardship are implemented in a manner consistent with the stated objective. Where such mechanisms are absent or weak, this should be clearly disclosed.

A coherence test would not prevent diversity of investment approaches. On the contrary, it would allow different approaches to coexist while ensuring that they are not treated as interchangeable when their mechanisms, incentives and likely real-economy implications differ substantially.

This is especially important for products claiming transition or sustainability objectives. The proposed categories should not merely identify portfolios that look cleaner today or issuers already considered aligned. They should identify strategies designed to support and incentivise credible progress over time.

Without such a coherence requirement, the revised SFDR may improve the presentation of sustainability-related products without ensuring that their classifications are connected to meaningful real-economy mechanisms. This would weaken investor protection, create misleading expectations among end-investors, and risk institutionalising greenwashing at the core of the EU sustainable finance framework.

EDHEC Climate Institute calls on Members of the European Parliament to ensure that the revised SFDR does more than simplify disclosures and structure product categories. It should provide reliable guidance to investors, reduce greenwashing risks, and support the mobilisation and allocation of capital in line with EU sustainability objectives and international commitments.

Notes to editors

EDHEC Climate Institute submitted [feedback](#) to the European Commission’s proposal for the revision of the SFDR on 6 April 2026. The contribution argues that the effectiveness of the revised framework depends on whether product classifications are grounded in a coherent and assessable relationship between category objectives, product objectives, investment strategies and real-economy implications.

Frédéric Ducoulombier also developed part of this analysis in an op-ed prepared for [Sustainable Views](#) and [The Banker](#), which focused on the risk that products based on EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks could benefit from automatic shortcuts into the proposed transition and sustainability categories. The ECON draft report usefully proposes to remove these automatic safe harbours; the remaining challenge is to ensure that all products making sustainability or transition claims are subject to a positive test of real-economy relevance.

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About EDHEC Climate Institute

Transforming Climate Research into Actionable Solutions

The [EDHEC Climate Institute](#) (ECI) focuses on helping private and public decision-makers manage climate-related financial risks and make the most of financial tools to support the transition to a low-emission economy that is more resilient to climate change.

It has a long track record as an independent and critical reference centre in helping long-term investors to understand and manage the financial implications of climate change on asset prices and the management of investments and climate action policies.

The institute has also developed an expertise in physical risks, developing proprietary research frameworks and innovative approaches. ECI is also conducting advanced research on climate transition risks, with a focus on supply chain emissions (Scope 3), consumer choices, and emerging technologies.

As part of its mission, ECI collaborates with academic partners, businesses, and financial players to establish targeted research partnerships. This includes making research outputs, publications, and data available in open source to maximise impact and accessibility.