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Swedish non-paper on the review of the SFDR

March 2026

This non-paper is without prejudice to other comments that Sweden may have in the future.

Summary

Four key issues have been identified that need to be addressed in order to avoid undermining SFDR's goal of transparency and capital mobilisation for the transition, and ultimately the goals of the SIU:

1. <u>Challenges for Long-Term Savings Products (Pensions & Insurance)</u>

Swedish insurance and pension providers manage ca. EUR 700 billion, representing approximately 5% of the EU insurance and occupational pension market. Traditional life insurance products rely heavily on sovereign and sub-sovereign debt instruments (20–40%) due to prudential capital requirements, and on alternative/real assets (15–30%) such as infrastructure, forestry, and real estate. The current proposal text creates practical uncertainty for these products because:

- General debt issuances from public sector bodies cannot be counted in the sustainable share for Articles 7 and 9, and it remains unclear how it would qualify under Article 8.
- Alternative and real assets lack standardised ESG data, and guidance on how to demonstrate "*proper justification*" or "*proven positive track record*" is absent.

The text as currently drafted does not provide sufficient clarity on how these instruments could qualify. Possible solutions to remediate this include: making explicit at Level 1 the basis on which general purpose sovereign debt may be included in the *ESG Basics* numerator – and in particular whether it must satisfy one of the specific investment approaches in Article 8(2)(a)–(e) or may do so through separate available methodologies – and that adapted criteria for alternative/real assets shall be developed. If such clarification cannot be achieved, neutralising sovereign debt from both numerator and denominator would be an alternative solution.

2. <u>The *Transition* Category Needs Stronger Transition Features</u>

The *Transition* category appears too static and hard to distinguish from the *Sustainable* category. The 15% taxonomy alignment safe harbour and PAB benchmark references send the wrong signal. Focusing on the CapEx KPI and the CTB, while removing references to art.9(2), are possible ways to strengthen the category's transition features.

3. <u>Clarity on Underperforming Investments</u>

The proposal is ambiguous about what action FMPs must take when investments underperform against stated objectives. There is a need for more robust requirements and a smaller number of mandatory sustainability indicators (rather than only voluntary ones) to ensure comparability.

4. Synchronisation of Level 1 and Level 2 Measures
Ensuring that Level 2 delegated acts (including MiFID/IDD sustainability preferences) apply simultaneously with Level 1 measures is of crucial importance. A new recital is proposed to enshrine the importance of this synchronisation at Level 1.

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Introduction

Sweden welcomes the Commission's proposal for SFDR 2.0 with its focus on simplification and improved transparency, as well as the creation of a product categorisation framework. Sweden shares the objective of creating clear categories that facilitate informed choices for investors.

The Commission has emphasised that the amended rules aim to enable investors to make better informed choices and to facilitate increased participation of retail investors in EU capital markets, in line with the objectives of the Savings and Investments Union (SIU). To achieve these objectives, it is essential that the regulatory framework encompasses a broad range of financial products and mobilises significant capital flows towards sustainable objectives. Against this backdrop, we see a need to adjust the proposed framework in order to ensure, not the least, that it does not inadvertently exclude substantial portions of capital from categorisation, particularly where such exclusion would contradict the regulation's core purposes of transparency and capital mobilisation.

To ensure the framework can effectively mobilise the substantial capital pools necessary for the transition – including the long-term savings managed by insurance and pension providers – four key adjustments are needed, as set out below.

1. Challenges for long-term savings products in the pension and insurance sector

Background

In 2025, Swedish insurance and occupational pension providers managed approximately SEK 7,500 billion (about EUR 700 billion). A bit more than half of these assets were allocated to traditional life insurance, and the remainder to unit-linked insurance and other multi-option products (MOPs). To put this in a European context, EIOPA reported that in 2024, European insurers held over EUR 10,000 billion in total assets, while institutions for occupational retirement provision (IORPs) managed nearly EUR 3,000 billion. Swedish insurance and occupational pension assets thus represent approximately 5% of the combined European insurance and occupational pensions market, more than double Sweden's 2.3% share of the EU's population. This disproportionately large savings market reflects the structural importance of insurance-based and occupational pension savings in Sweden. Our market model, characterised by substantial privately managed pension capital invested in diversified portfolios including long-term sustainable assets, represents the type of capital mobilisation that the Savings and Investments Union (SIU) seeks to promote across the EU. It is therefore essential that the SFDR-framework can effectively accommodate and mobilise these substantial capital pools for the transition. Given that insurance and pension arrangements with similar characteristics exist in several other member states (MS), it is likely that equivalent implementation challenges for this regulatory framework will arise in multiple MS with similar market structures, and especially in the context of further advancing these SIU objectives.

Traditional life insurance products are generally characterised by very long-term commitments to policyholders and beneficiaries, often with time horizons of 30 years or more. Traditional life insurance is based on a model where long-term value growth is combined with contractual financial guarantees. This, in combination with prudential regulatory requirements for solvency and risk control, dictates broad diversification with a stabilising proportion of sovereign and sub-sovereign debt and other public sector debt instruments, as well as real assets to ensure future payments. Under applicable prudential frameworks, sovereign and sub-sovereign debt receive favourable risk treatment, making them essential for meeting regulatory capital requirements.

A typical portfolio composition for traditional life insurance consists of approximately 20–40% sovereign and sub-sovereign debt and other fixed-income assets. This allocation cannot be regarded as an active investment choice, but rather as a strict structural necessity to honour issued guarantees and fulfil binding regulatory requirements.

In addition to this, 15–30% of the portfolio normally consists of alternative and real assets, such as infrastructure, real estate, forestry holdings and unlisted equity. These are crucial components for diversifying risk, dampening equity market volatility and ensuring stable, long-term returns – securing the retirement income of the millions of citizens who rely on these products for their long-term financial security. Within these asset classes, there are also significant opportunities to direct capital towards renewable energy, sustainable infrastructure and sustainable forestry, contributing directly to EU's climate and energy transition objectives.

The difficulties regarding the treatment of sovereign and sub-sovereign debt and the assessment of alternative assets affect a broad range of insurance and pension products across MS. Any product that must hold significant sovereign and sub-sovereign debt to meet prudential capital requirements, or that invests substantially in alternative and real assets for long-term value creation and risk diversification, will face similar categorisation barriers under the proposal as it currently reads.

Difficulties in classifying these products according to the current proposal

The Commission's proposal presents several structural challenges for products with the portfolio composition described above.

First, the proposal means that general debt issuances from public sector bodies cannot be included in the sustainable share (the numerator) for the *Transition* and *Sustainable* categories, as there are no established methods for measuring their sustainability. While general purpose debt issuances from public sector bodies are not explicitly excluded from the numerator for the *ESG Basics* category – and may in principle be included using available methodologies – based on the text as currently drafted, it remains unclear in practice how such inclusion would be achieved. Specifically, it is not evident from the text of Article 8 how sovereign debt, whose use of proceeds is typically not earmarked, would be assessed as "*integrating sustainability factors*" in line with any of the investment approaches listed in Article 8(2)(a)–(e). This creates material uncertainty about whether sovereign debt can in fact qualify for the numerator in *ESG Basics*, regardless of the apparent intent. If the intention of the proposal is that general purpose sovereign debt should be includable in the *ESG Basics* numerator, the basis on which it qualifies – and in particular whether it must satisfy one of the specific investment approaches set out in Article 8(2)(a)–(e), or whether it may do so through a separate pathway using available methodologies as envisaged in the recitals – should be made explicit in the text, as the current drafting does not readily support either conclusion.

Second, the investment approaches listed in Article 8(2)(a)–(e) for the *ESG Basics* category raise practical challenges for alternative and real assets. While provisions such as Article 8(2)(c) and (e), supported by Recital 14, appear intended to cover these asset classes, the current drafting lacks clear guidance on what constitutes "*proper justification*" or a "*proven positive track record*" for assets where standardised ESG data is lacking. If the intention is that these provisions are to cover alternative and real assets even where standardised ESG data is unavailable, this should be confirmed explicitly in the text.

In practice, the data needed to substantiate sustainability integration is currently available almost exclusively for liquid securities. Recent legislative changes to the EU Taxonomy's scope will probably have the effect of further reducing data availability for alternative assets. Without adequate guidance tailored to these specific asset classes, there is a material risk that these provisions will remain unusable for infrastructure, forestry, and real estate – even where financial market participants (FMPs) demonstrably integrate sustainability factors through active ownership and strict private market mandates.

The combination of these factors creates a structural problem: for portfolios such as those characterising traditional life insurance products, the 70% threshold risks being unattainable in practice, not because the products lack genuine sustainability ambition, but because the framework does not provide workable criteria. Given that alternative and real assets constitute 15–30% of typical portfolios, and sovereign debt a further 20–40%, the combined share of investments that cannot currently be assessed may well exceed the 30% margin permitted outside the threshold. This creates a paradox: assets crucial for the green transition cannot currently be assessed and counted under the proposed framework.

Anticipated consequences

For consumers, there is a risk that large portions of pension and insurance savings capital will automatically fall outside SFDR 2.0 and thus lack clear sustainability information. The fundamental purpose of the regulation – transparency for investment decisions – would thus be absent for consumers of these widely used products.

For FMPs, incentives to work towards more sustainable investments of capital for long-term savings decrease. New products may be created to fit SFDR 2.0, but with a significant risk of not being able to constitute the secure form of savings that the system represents today. Furthermore, the industry's ability to invest in alternative assets that can contribute to the green transition is reduced. Capital might be directed away from long-term, sustainable real assets towards listed instruments only. This is particularly concerning given that infrastructure investments in these portfolios often serve dual purposes: contributing to the green transition while also building the resilience needed to mitigate the effects of climate change.

Considerations on possible amendments to enable more products to be categorised while maintaining the level of ambition

a. Treatment of general issuances from public sector bodies

Several MS have raised the need to reconsider the treatment of general issuances from public sector bodies.

The Commission's proposal currently excludes general issuances from public sector bodies from the numerator in Articles 7 and 9 but does not exclude them from the denominator. For Article 8, the text does not explicitly exclude general issuances from public sector bodies from the numerator and indicates that they may be included using available methodologies.

However, as outlined above, it remains unclear whether sovereign debt is required to fulfil the objective to integrate sustainability factors beyond the consideration of sustainability risks, and if so, how it would satisfy one of the investment approaches set out in Article

8(2). The practical result under the text as drafted is that workable criteria for including such instruments remain absent.

In case such clarification – preferably at level 1 – cannot ensure that general purpose sovereign debt may be included in the *ESG Basics* numerator on a workable basis, whether by qualifying under one of the existing investment approaches in Article 8(2)(a)–(e) or through a clearly defined separate pathway using available methodologies, excluding general issuances from public sector bodies from both the numerator and denominator when calculating the 70% threshold across all three categories (Articles 7, 8 and 9) could be an alternative solution. Since such holdings represent a regulatory necessity for certain products rather than an active investment choice, such an approach would not create an advantage for products with public debt exposures – it would simply neutralise a structural component that distorts the measurement, enabling a fairer assessment of the actual sustainability profile of active investment decisions.

To ensure transparency for end-investors, FMPs should be required to include a simple statement indicating the proportion of the portfolio consisting of general issuances from public sector bodies and, where relevant, the regulatory rationale for holding them – information that should already be available to FMPs and should not add materially to existing disclosure requirements.

b. Criteria for alternative and real assets to count in the numerator

Real assets and alternative assets may be intended to be covered by the formulation "*other investments*" – and potentially also by Article 8(2)(c) covering investments with a "*proven positive track record*" – in Articles 7(2)(h), 8(2)(c) and (e), and 9(2)(g), in line with Recital 14, which confirms that investment approaches should be identified "*without excluding other possible approaches*" and that "*there is no 'one size fits all'*" approach to contribution. This should be made clear at level 1, preferably with examples in the recitals, in order to avoid any ambiguity which would be detrimental for the industry.

This particularly concerns the "*other investments*" provisions in all three categories:

- Article 8(2)(e) for the *ESG Basics* category, which refers to "*other investments integrating sustainability factors*" but lacks clarity on how alternative and real assets can demonstrate such integration where standardised ESG data is unavailable.
- Article 7(2)(h) for the *Transition* category, which refers to "*other investments that credibly contribute to the transition*" – and it should be made explicit that alternative and real assets fall within the scope of this provision.
- Article 9(2)(g) for the *Sustainable* category, which refers to "*other investments that contribute to environmental or social objectives*" but lacks guidance on appropriate evidence for alternative and real assets.

The criteria, examples, and indicators developed to date have focused primarily on liquid securities such as listed equities and corporate bonds, or standard investment funds, where standardised ESG data is readily available. These are not fit for purpose when assessing real and alternative assets, which have fundamentally different characteristics and data availability – yet represent precisely the long-term investments that are essential for achieving climate neutrality by 2050.

For these provisions to be workable in practice, regardless of their intended scope, it should be explicitly confirmed in the recitals that alternative and real assets fall within the scope of the "*other investments*" provisions – including Article 8(2)(c) and Article 8(2)(e). Furthermore, the level 1 text should be amended to include a positive requirement for the Commission to develop, at level 2, concrete criteria for how such asset classes can demonstrate "*proper justification*" and "*proven positive track record*" where standardised ESG data is unavailable. Due to the limited applicability of the EU Taxonomy to these asset classes, such criteria should be developed independently of the Taxonomy framework.

c. Article 9a does not resolve these structural problems

The proposed treatment of MOPs under Article 9a presents several challenges of its own. While a detailed analysis of Article 9a falls outside the scope of this non-paper, it is crucial to emphasise that the structural problems described in this document cannot be circumvented or solved through the application of Article 9a. The difficulties regarding the inclusion of public debt, alternative investments, and real assets in the sustainable share affect the underlying investment options themselves.

Consequently, to ensure a functional framework, these issues must be resolved directly within the foundational criteria for the respective product categories in Articles 7, 8, and 9, rather than relying on the specific rules for MOPs.

2. The Transition category must reflect actual, measurable real-world transition

Background

Not the least for reasons of clarity and investor protection, we believe that the *Transition* category should be made more dynamic and easier to distinguish from the other categories, and especially the *Sustainable* category. Given the claimed purpose of the category, it should be clarified that the objective of products belonging to this category should be to achieve a certain change – in the form of a predefined and measurable target/performance. It should also be clear what is expected from the FMP in terms of reporting and actions taken if/when investments underperform.

In this context, it is also necessary, among other things, to clarify what is meant by a "*transition*" asset, "*credible*" transition plans, transition targets, or sustainability-related engagements.

A safe harbour based on 15% taxonomy alignment (activities that are already environmentally sustainable) sends the wrong signal for a category focused on achieving/contributing to transition, as does the use of the PAB benchmark. Even the reference to "*investments pursuant to Article 9(2)*" in Article 7(2)f is problematic. These are "static" elements and do not reflect the dynamism that the *Transition* category should promote.

Considerations on possible amendments

One option could be to focus on the CapEx KPI within the taxonomy, if the taxonomy safe harbour is to be retained for the *Transition* category.

Removing the PAB and instead focusing on the CTB could also be an interesting avenue to explore in order to give the *Transition* category stronger transition features.

Removing the reference to "*investments pursuant to Article 9(2)*" in Article 7(2)f. would also be a logical step.

3. Clarification on investments underperforming in terms of the objective pursued or the sustainability-related considerations applied

Background

According to the proposed recital 14, a minimum portion of 70% of investments by financial products in each category should be made in accordance with the sustainability-related claim, i.e. the objective that is pursued or the sustainability-related considerations that are applied. FMPs should measure their contribution, the compliance with the strategy and the progress towards the sustainability objective, through appropriate sustainability-related indicators and disclose those indicators.

Even though the provision in Articles 7, 8 and 9 has a somewhat different wording than the recital, our interpretation of the provision is that the objective of the product does not need to be achieved at the time of the categorisation. The 70% threshold of eligible investments shall however be met, at least at the expiry of the phase-in period.

Further, the provision requires that FMPs shall measure their progress towards the sustainability objective with appropriate sustainability-related indicators. However, the provision of the criteria does not put forward any specific requirements on how underperforming assets in terms of the objective should be addressed by the FMP.

On the other hand, the provision on periodic reporting requires that period reports should disclose which indicators have been used to measure compliance with the strategy and progress toward the objective, together with information on actions to address any underperforming assets in terms of the objective and chosen indicator – which indicates that some sort of actions might be required.

Also, for products categorised according to Article 7 or 9, FMPs shall identify and disclose the principal adverse impacts of their investments on sustainability factors, and explain any actions taken to address those impacts.

The indicators that FMPs can voluntarily use for the above-mentioned measurement of objectives and for their PAI analysis are not harmonized, but each FMP can choose its own indicators – although a list of indicators should be produced for FMPs to choose from.

Considerations on possible amendments

It is unclear to what extent underperformance in relation to the target can be allowed. If it is the intention of the proposal that there actually is a requirement on financial market participants to take action in the event of underperformance, this needs to be further developed in the text. The requirement on products categorised according to Articles 7 and 9 regarding identification and disclosure of PAI and the wording "*any actions*" would also benefit from clarification in this context.

This ambiguity is further enhanced by the provision that allows full flexibility for FMPs to choose which indicators to use.

In our view, a list of voluntary indicators (built on the indicators referred to in Annex I of Commission Delegated Regulation (EU) 2022/1288 and Commission Delegated Regulation (EU) 2023/2772) will not be enough to achieve harmonisation and comparability in the way financial market participants measure and disclose their contribution to an objective, as suggested by the Commission. Instead, a small number of mandatory indicators would be required to achieve such comparability between products – an element that is crucial in order to avoid greenwashing.

However, when it is obvious that an indicator is not relevant for the investment, there should be a possibility for the FMP to opt out. Such a list of indicators should include, apart from a small number of mandatory indicators, a small number of voluntary indicators. It is however essential, in order to achieve harmonisation, that level 2 regulation provides sufficient guidance on how to measure and calculate both mandatory and voluntary indicators.

4. The need for synchronization of the Level 1 and level 2 measures and of the alignment of related pieces of legislation must be recognized

Background

With the current SFDR it became evident that the misalignment between application of level 1 and level 2, as well as the misalignment with changes in other regulatory frameworks linked to the Regulation, entailed high complexity and high administrative costs for financial market participants.

It is therefore of crucial importance for the FMPs as well as for supervisory entities that the foreseen level 2 measures, including with regard to sustainability preferences under MiFID/IDD, apply at the same time as the level 1 measures so that they have clarity on what rules will apply at which time.

Considerations on possible amendments

In order to clearly state the wish of the co-legislators and to provide clarity for the industry, a new recital could be introduced, along the lines of the following:

> *(33a) "In order to reduce the regulatory burden and to ensure coherent and effective implementation of this Regulation, the entry into force of the delegated acts necessary for the functioning of this Regulation should be aligned with its date of application. Moreover, the corresponding revisions of the relevant sectoral acts, in particular delegated acts under Directive 2014/65/EU (MiFID II) and Directive (EU) 2016/97 (IDD), should be synchronised with the date of application of this Regulation, so as to ensure consistency across the Union's legislative framework on sustainability-related disclosures."*

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