

SFDR 2.0 Readiness Solution

Methodology: Version 1.0

October 2026

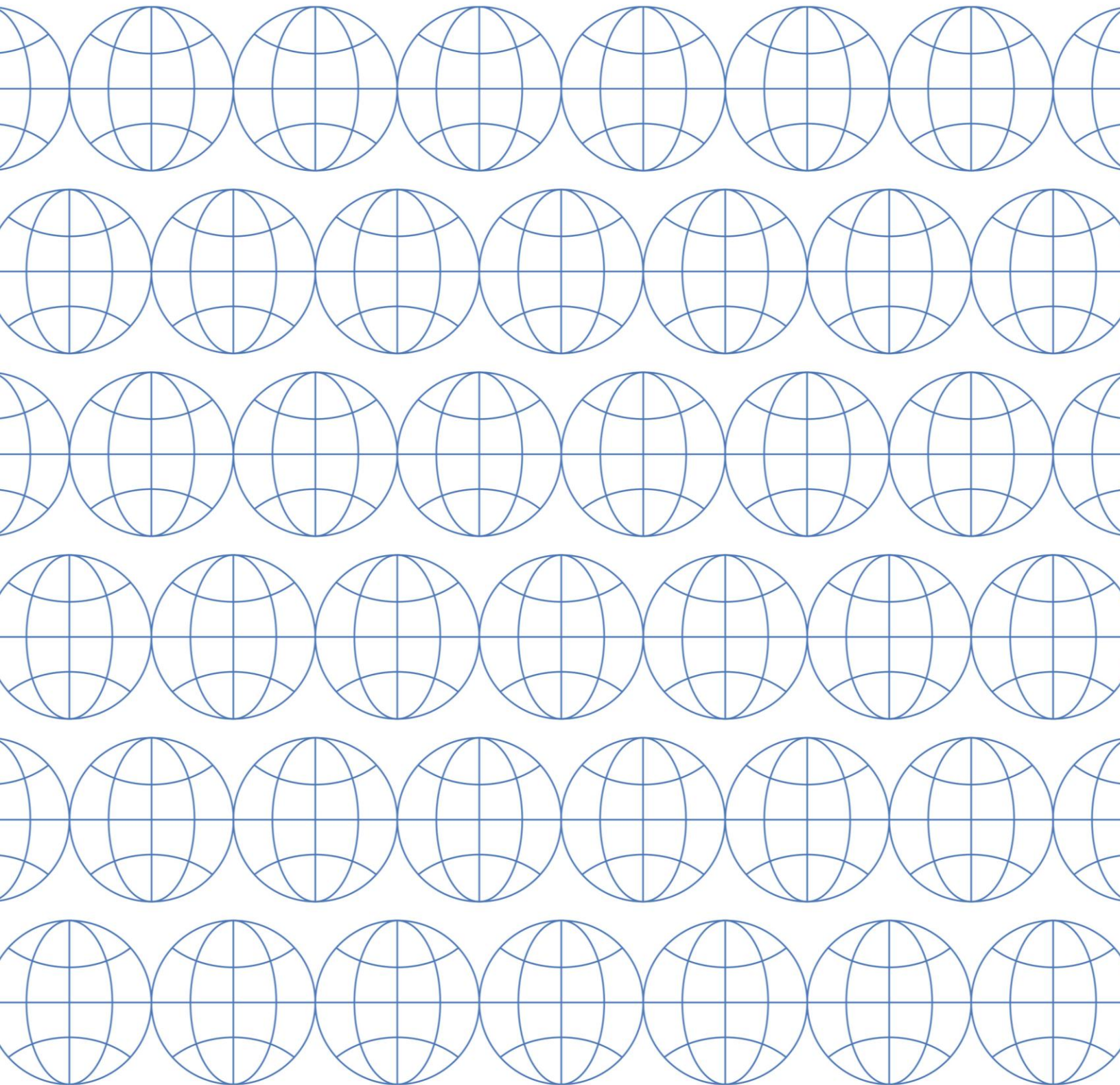


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Methodology Summary

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The European Union (EU) **Sustainable Finance Disclosure Regulation (SFDR)** is a regulatory framework that requires **Financial Market Participants (FMPs)** to disclose how sustainability factors are incorporated into their investment decision-making processes and financial products. In 2026, the EU initiated a comprehensive legislative review of the current regulation (SFDR 1.0).¹ The review is based on proposals for a revised SFDR framework (SFDR 2.0),² which strives to simplify requirements, provide greater clarity, and foster investments in the transition to a sustainable economy. Morningstar Sustainalytics' SFDR 2.0 Readiness Solution aims to support clients during this regulatory transition period by providing structured data sets, which would enable clients to better prepare ahead of the regulation's finalization.

Highlights

Morningstar Sustainalytics' SFDR 2.0 Readiness Solution provides investee company-level data sets aligned with the three core components of the proposed SFDR 2.0 framework, namely the **exclusion criteria**, **product classification**, and **Principal Adverse Impact (PAI) indicators**, helping FMPs prepare for the transition to the final SFDR 2.0.

The solution provides a flexible, modular data framework that allows users to build assessments aligned with their own investment strategies and adapt efficiently to future regulatory developments and **Regulatory Technical Standards' (RTS)** guidance.

Transparency is ensured through clear data and underlying product descriptions, fit assessments and rationales, and flags identifying estimated data, enabling users to understand and validate assessment outcomes.

The solution leverages and integrates data from a broad range of Morningstar Sustainalytics products, including ESG Risk Ratings, Low Carbon Transition Rating, EU Taxonomy Solution, CSRD Double Materiality Assessment, Impact Metrics Framework, and other sustainability data sets, providing a comprehensive foundation for assessments based on the SFDR 2.0 proposal. The full list of data sources can be found in the [Appendix](#).

Related Documents

This methodology should be read in conjunction with the following documents:³

- Exclusion criteria mapping file;
- Product classification mapping file;
- and PAI relevance review mapping file.

Note: Any terms highlighted in bold gray are listed in the Glossary at the end of this document.

Purpose

This methodology outlines the approach taken by Morningstar Sustainalytics to interpret and map the proposed SFDR 2.0 requirements to structured and transparent Morningstar Sustainalytics data sets. The mapping outputs are structured according to the regulatory requirements' building blocks and are designed to be transparent by providing data definitions, methodology fit assessments, product descriptions, and disclosures regarding the use of estimated data where applicable.

Regulatory Legacy Framework

The SFDR, applicable since 2021, is a fundamental pillar of the EU's sustainable finance framework. Its objective is to enhance transparency, support informed investment decisions, and channel capital toward sustainable economic activities. Since its implementation, market practice has evolved such that the disclosure requirements under SFDR 1.0 (specifically Articles 8 and 9), have often been used by market participants as reference points for product labelling. This development has resulted in varying interpretations and approaches across the market. As a result, the regulatory framework has undergone review to further support clarity, consistency, and the achievement of its policy objectives.

SFDR 2.0 Proposal

The European Commission published a comprehensive revision proposal – the SFDR 2.0 proposal. The proposed revised framework is designed to reduce the compliance burden for FMPs, improve the comparability of financial products for investors, and foster investments in the transition to a sustainable economy.

Key Methodological Shifts

The SFDR 2.0 proposal replaces the SFDR 1.0 Articles 8 and 9 regime⁴ with three product categories, *ESG Basics* (Article 8), *Transition* (Article 7) and *Sustainable* (Article 9), each underpinned by common exclusions ensuring a baseline screening, and portfolio thresholds for positive contribution. It further introduces minimum criteria for categorization and substantially simplifies the existing disclosure framework, notably by removing entity-level disclosures.

Objective of this Methodology

The objective of this methodology is to support users in their transition to and preparation for the final SFDR 2.0 regulation and associated future RTS. Preparing for the final SFDR 2.0 involves assessing existing products or creating new ones to ensure they meet the rules on exclusion criteria, product classification, and PAI disclosures. This methodology explains how these preparation steps can be performed with Morningstar Sustainalytics' SFDR 2.0 Readiness Solution.

Methodological Approach

The principles and methods applied in this solution are based on the principles, criteria, and requirements defined by the SFDR 2.0 proposal.

The SFDR 2.0 Readiness Solution applies a requirement-based mapping approach that links Morningstar Sustainalytics data points to the proposed regulatory requirements under the SFDR 2.0 framework.

The data are the result of a combination of data points from various Morningstar Sustainalytics research and screening products.

The methodology is based on the identification of requirements from the SFDR 2.0 proposal and the assessment of Morningstar Sustainalytics data points that most closely correspond to the underlying regulatory definitions. Each requirement from the SFDR 2.0 proposal is evaluated individually and supported by one or more data points, depending on the nature of the requirement and the availability of relevant data sets.

The mapping process is guided by four core principles:

1. **Definitional Coherence:** Uses the data points that most closely correspond to the regulatory SFDR 2.0 proposal requirement.
2. **Regulatory Alignment:** Maintains consistency with the intent and objectives of the applicable SFDR 2.0 proposal requirement.
3. **Coverage Considerations:** Considers data availability, issuer coverage, and applicability across SFDR 2.0 proposal requirements constituents when selecting mapped data sets.
4. **Transparency:** Provides transparency regarding mapping decisions.

Details of the mappings are available in the following documents:⁵

- Exclusion criteria mapping file;
- Product classification mapping file; and
- PAI relevance review mapping file.

To support transparency regarding the degree of alignment between SFDR 2.0 proposal requirements and mapped data sets, each mapping assessment is evaluated on a four-level scale comprising **Exact Fit**, **Partial Fit**, **Minimum Fit**, and **No Coverage** classes. Please refer to the [Research Approach](#) section for more information on these measures.

Scope & Limitations

Scope

The scope of the SFDR 2.0 Readiness Solution includes publicly listed and privately held corporations for which sufficient information is available.

The data fields are available at the investee company level but not at the activity or issuance⁶ level. Moreover, we do not aggregate these data fields at the portfolio level. Data fields are broken down into their individual components at the final outcome level but not at the intermediate assessment level.⁷

This methodology is based on the November 2025 European Commission SFDR 2.0 regulation proposal.

Limitations

As SFDR 2.0 Readiness Solution's data fields are fed by various Morningstar Sustainalytics products providing assessments, they inherit their limitations. Assessments from these products are qualitative opinions and a complete summary of the potential limitations and qualifications inherent in these assessments is not possible. The following is a generic non-exhaustive list of limitations that should be considered when interpreting SFDR 2.0 Readiness Solution's results; for more detailed and specific limitations, please refer to the underlying methodology documents:

- **Dependence on Publicly Available Information:** The SFDR 2.0 Readiness Solution's underlying assessments rely on information that is accessible in the public domain, which may not capture all relevant misconduct, especially in jurisdictions with weaker disclosure or press freedoms.
- **Qualitative Judgments and Subjectivity:** Assessments involve qualitative, holistic judgments (e.g., severity, company responsibility, and management), which introduces subjectivity into the SFDR 2.0 Readiness Solution's underlying assessments. Despite attempts at structured consistency, similar facts may be interpreted differently.
- **Company Responsibility Assessment Challenges:** Determining the degree of company responsibility for impacts, especially in complex supply chains or joint ventures, is difficult and may result in different opinions with respect to substantially similar facts, despite efforts to achieve structured consistency.
- **Management Assessment Limitations:** Evaluating company management responses (such as remediation or prevention) can be challenging when disclosure is limited, potentially resulting in more critical opinions about firms that do not publicly disclose their remedial actions.
- **Geographic Bias:** Incidents that occur in developed markets with freer press may be more frequently identified than those in emerging markets with more limited press coverage or press freedoms.
- **Lag in Detecting Issues:** Assessments are reactive to publicly reported incidents. Failures may be identified only after significant harm has already occurred. Emerging risks (e.g., systemic supply chain abuse) may not be captured until they surface in the news.

- **Partial Fit:** Reliance on the currently available data points results in outcomes that may involve only a partial fit.

In addition to any limitations from other products, the following is a non-exhaustive list of limitations specific to the SFDR 2.0 Readiness Solution that should be considered when interpreting its results:

- **General limitations due to regulatory uncertainty:** As the final regulation and its accompanying RTS have not yet been published, elements relating to exclusion criteria, product classification requirements, and the list and treatment of PAIs remain subject to further regulatory clarification. Accordingly, the information and mappings provided in relation to the SFDR 2.0 Readiness Solution are preliminary in nature and are intended solely to support clients' assessment and preparation efforts.
- **Exclusion criteria:** The current solution supports issuer-level data; issuance-level data is out of scope. This means that the exceptions (use-of-proceeds instruments supporting specific sustainability aims) to the rule excluding investments in issuances by public sector bodies in the *Transition* and *Sustainable* product categories⁸ cannot be currently identified with the SFDR 2.0 Readiness Solution.⁹
- **Product classification:** The solution currently does not provide data fields¹⁰ for the following product categories and subcategories:
 - Within the *Transition* (proposed SFDR 2.0 Article 7) category:
 - Engagement-Driven Investments subcategory;
 - Portfolio Transition Investments subcategory.
 - Within the *Sustainable* (proposed SFDR 2.0 Article 9) category:
 - EU Green Bonds (EU GBS) subcategory;
 - Union Budgetary Guarantee / InvestEU subcategory;
 - European Social Entrepreneurship Funds (EuSEF) subcategory.

Methodology Description

The proposed SFDR 2.0 revises the current SFDR 1.0 framework to simplify requirements, provide greater clarity, and foster investment in the transition to a sustainable economy. As part of this, it replaces the current Articles 8 and 9 framework with three proposed product categories:¹¹

- 1. *ESG Basics*;¹²
- 2. *Transition*;¹³
- 3. *Sustainable*.¹⁴

Eligibility under each of the product categories is determined by considering mandatory exclusion criteria and the percentage of the portfolio that is aligned with specific sustainability considerations, such as objectives, integration of factors, and performance.

A Three-Component Assessment Framework

The SFDR 2.0 Readiness Solution is built around three core components. This framework, illustrated in **Exhibit 1**, provides an early view of investee companies that are likely to fall within the scope of the proposed SFDR 2.0, enabling clients to prepare ahead of the regulation's finalization by assessing their investment products, classifying them in the proposed product categories and subcategories, and disclose their material impacts.

Exhibit 1 A Three-Component Assessment Framework



Source: Morningstar Sustainalytics

First Component: Exclusion Criteria

Exclusion criteria define investments that cannot be included in a financial product seeking classification under proposed SFDR 2.0,¹⁵ thus creating a baseline screening for each product category. The proposed SFDR 2.0 exclusion criteria build on the EU Paris-aligned Benchmarks¹⁶ exclusions list (Article 12)¹⁷ with new specific exclusions added:¹⁸

- Companies developing new projects for the exploration, extraction, distribution or refining of fossil fuels irrespective of their physical form (i.e. solid, liquid or gaseous);

- Companies developing new projects for the same activities but focused only on solid forms of fossil fuels (i.e. hard coal or lignite) for power generation;
- Companies without a plan to phase out from the previous activities;
- Investments in issuances from public sector bodies, except for use-of-proceeds that finance only non-excluded economic activities.

Exhibit 2 lists these exclusions with the relevant Morningstar Sustainalytics products from which the mapped data fields are sourced. For each exclusion criterion, the mapping identifies the most relevant data field(s), evaluates their fit for purpose, and documents the methodological rationale supporting their use. For each product category, a consolidated entity-level Exclusion Screening Outcome, indicating whether an entity breaches any applicable exclusion requirements, is determined. This Exclusion Screening Outcome has three possible outcomes:

1. *Pass* indicates that the entity does not trigger any exclusion criterion;
2. *Fail* indicates that the entity triggers at least one exclusion criterion;
3. *Undefined* indicates that unavailable information on at least one exclusion criterion does not enable the derivation of a consolidated assessment.

Exhibit 2 Exclusion Criteria Under the Proposed SFDR 2.0

Exclusion Criterion	Morningstar Sustainalytics Products
Involvement in prohibited weapons	Controversial Weapons Radar (CWR)
Cultivation and production of tobacco	Product Involvement (PI)
Violations of UNGC principles or OECD MNE Guidelines	Global Standards Screening (GSS), Controversy Ratings
≥1% revenue from hard coal or lignite activities	Product Involvement (PI)
≥10% revenue from oil fuel activities	Product Involvement (PI)
≥50% revenue from gaseous fuel activities	Product Involvement (PI)
≥50% revenue from high-carbon electricity generation	Product Involvement (PI)
Development of new hard coal, lignite, oil fuels, gaseous fuels	Product Involvement (PI)
New hard coal, lignite projects or no coal phase-out plan	Product Involvement (PI), Low-Carbon Transition Rating (LCTR)
Investments in public sector issuances	Not available – data is only available at the issuer level, not the issuance level



Exclusion Screening Outcome

Pass / Fail / Undefined

Per product category

Note: The gray-shaded cells indicate an exclusion criterion currently not supported by the SFDR 2.0 Readiness Solution.

Source: Morningstar Sustainalytics

More details are available in the Exclusion criteria mapping file.¹⁹

Second Component: Product Classification

Product Classification is based on a financial product's investment strategy, sustainability objective, and applicable thresholds²⁰ including minimum portfolio allocation requirements defined under the proposed SFDR 2.0. Financial products are assessed against the eligibility criteria for the relevant product category (*ESG Basics*, *Transition*, or *Sustainable*). For each product subcategory within each of these three categories, the most relevant available Morningstar Sustainalytics data fields are mapped, their suitability evaluated, and a rationale for their use provided. Furthermore, each mapped data field is assigned a classification role:

- Core: independently fundamental to determining the product subcategory.
- Core (within a group): fundamental only when evaluated together with one or more related data points.
- Supporting: provides additional context or evidence but is not essential, either individually or collectively, for determining the classification.

The screen also supports the identification of investments contributing to the proposed positive contribution thresholds for all three proposed product categories where relevant Morningstar Sustainalytics data is available.

The mapping reflects the most relevant and useful Morningstar Sustainalytics data fields for product classification under the proposed framework, while highlighting coverage gaps where no supporting data is currently available, as illustrated in **Exhibit 3**.

Exhibit 3 Product Classification: Proposed SFDR 2.0 Product Categories and Subcategories

<i>ESG Basics</i> – Subcategories	<i>Transition</i> – Subcategories	<i>Sustainable</i> – Subcategories
1. ESG Rating Outperformance Investments	1. Climate Benchmark Investments	1. EU Paris-Aligned Benchmark
2. Sustainability Indicator Outperformance Investments	2. Taxonomy-Aligned Investments	2. EU Taxonomy-Aligned Activities
3. Positive ESG Track Record Investments	3. Taxonomy Transitional Investments	3. EU Green Bonds (EU GBS)
4. Combination Investments	4. Taxonomy Alignment Pathway Investments	4. Union Budgetary Guarantee / InvestEU
5. Other Sustainability Integration Investments	5. Transition Plan Investments	5. Comparable High-Standard Assets
	6. Science-Based Target Investments	6. European Social Entrepreneurship Funds (EuSEF)
	7. Engagement-Driven Investments	7. Other Environmental or Social Objective Investments
	8. Sustainable Transition Investments	
	9. Portfolio Transition Investments	
	10. Other Transition Investments	

Note: The gray-shaded cells indicate product subcategories currently not supported by the SFDR 2.0 Readiness Solution.

Source: Morningstar Sustainalytics

For more details on what these product subcategories entail, please consult the Product classification mapping file²¹ of the SFDR 2.0 Readiness Solution or consult the SFDR 2.0 proposal for regulatory definitions.

Exhibit 4, Exhibit 5 and **Exhibit 6** list the Morningstar Sustainability products from which the data fields mapped to each product subcategory are derived.

Exhibit 4 Morningstar Sustainability Products from which Data Fields are Mapped for *ESG Basics*

ESG Basics – Subcategories	Morningstar Sustainability products
1. ESG Rating Outperformance Investments	ESG Risk Ratings (ESG RR)
2. Sustainability Indicator Outperformance Investments	ESG Risk Ratings (ESG RR), Physical Climate Risk Metrics (PCRM)
3. Positive ESG Track Record Investments	ESG Risk Ratings (ESG RR), Low-Carbon Transition Rating (LCTR), Physical Climate Risk Metrics (PCRM)
4. Combination Investments	Captured across other sections
5. Other Sustainability Integration Investments	Product Involvement (PI), Controversy Ratings, Global Standards Screening (GSS), Sustainable Finance Disclosure Regulation (SFDR) PAI Data Solution, EU Benchmarks Data Solution (Benchmark Regulation, BMR), Physical Climate Risk Metrics (PCRM), Carbon Data Package ²²

Note: The blue-shaded cells indicate product subcategories involving requirements from more than one product category.

Source: Morningstar Sustainability

Exhibit 5 Morningstar Sustainability Products from which Data Fields are Mapped for *Transition*

Transition – Subcategories	Morningstar Sustainability products
1. Climate Benchmark Investments	Low-Carbon Transition Rating (LCTR), Net Zero Investment Framework (NZIF) Data Solution, Carbon Data Package
2. Taxonomy-Aligned Investments	EU Taxonomy Solution
3. Taxonomy Transitional Investments	EU Taxonomy Solution
4. Taxonomy Alignment Pathway Investments	EU Taxonomy Solution
5. Transition Plan Investments	Low-Carbon Transition Rating (LCTR), Net Zero Investment Framework (NZIF) Data Solution, Physical Climate Risk Metrics (PCRM), ESG Risk Ratings (ESG RR)
6. Science-Based Target Investments	Low-Carbon Transition Rating (LCTR), Net Zero Investment Framework (NZIF) Data Solution
7. Engagement-Driven Investments	ESG Risk Ratings (ESG RR), Low-Carbon Transition Rating (LCTR)
8. Sustainable Transition Investments (this subcategory reflects a combination of investment types covered elsewhere in the framework)	Captured across other sections
9. Portfolio Transition Investments (This solution provides data fields at entity level. For portfolio-level metrics, please contact your client representative for details on available portfolio-level solutions.)	Not available – data is only available at the issuer level, not covering portfolio level metrics
10. Other Transition Investments	Impact Metrics Framework, Physical Climate Risk Metrics (PCRM)

Notes: The blue-shaded cells indicate product subcategories involving requirements from more than one product category. The gray-shaded cells indicate product subcategories currently not supported by the SFDR 2.0 Readiness Solution.

Source: Morningstar Sustainability

Exhibit 6 Morningstar Sustainalytics Products from which Data Fields are Mapped for *Sustainable*

Sustainable – Subcategories	Morningstar Sustainalytics products
1. EU Paris-Aligned Benchmark	Low-Carbon Transition Rating (LCTR), Net Zero Investment Framework (NZIF) Data Solution, Carbon Data Package
2. EU Taxonomy-Aligned Activities	EU Taxonomy Solution
3. EU Green Bonds (EU GBS)*	Not available – data is only available at the issuer level, not covering bond metrics.
4. Union Budgetary Guarantee / InvestEU*	Not available – Requiring information regarding the financing instrument's participation in the Union budgetary guarantee or Invest EU programme, this subcategory is not directly covered by the entity-level SFDR 2.0 Readiness Solution.
5. Comparable High-Standard Assets	Physical Climate Risk Metrics (PCRM)
6. European Social Entrepreneurship Funds (EuSEF)*	Not available – Requiring product level classification and regulatory status information, this subcategory is not directly covered by the entity-level SFDR 2.0 Readiness Solution.
7. Other Environmental or Social Objective Investments	Impact Metrics Framework, Physical Climate Risk Metrics (PCRM), ESG Risk Ratings (ESG RR)

Note: The gray-shaded cells indicate product subcategories currently not supported by the SFDR 2.0 Readiness Solution.

Source: Morningstar Sustainalytics

Third Component: PAI Relevance Review

The third component determines the potential relevance of current SFDR PAI indicators under the future SFDR 2.0 framework²³ and identifies potential new PAI indicators. This is done in four steps.

First Step – Binary Relevance Outcomes

The review starts with three distinct sources of evidence, each producing a binary relevance outcome (**Relevant/Not Relevant**):

1. **Regulation:** Mandatory or voluntary nature of disclosure under SFDR 1.0,²⁴ a mandatory disclosure being counted as 'Relevant';
2. **Market usage:** **European ESG Template (EET)** statistics of SFDR 1.0 Article 9 investment products, a PAI indicator being counted as 'Relevant' when at least 25% of the reporting companies in the sample indicated a commitment to consider this PAI indicator in the investment strategy of the underlying financial instrument;
3. **Internal insights:** Outcomes of the Morningstar Sustainalytics CSRD DMA tool²⁵ to identify the most material²⁶ ESRS topics from the Sustainalytics subindustries most relevant to each of the two proposed SFDR 2.0 product categories.²⁷ A PAI indicator is deemed 'Relevant' if at least one related ESRS topic is identified as material by the tool.

These three binary relevance outcomes, not yet differentiated by product category, are subsequently combined into a single binary relevance outcome (using predefined rules)²⁸ for each PAI. For potential new PAI indicators, only the last source of evidence (Internal insights) is applicable, and thus considered. As a result, the binary relevance outcome always has the value 'Relevant' by design.

Second Step – Combined Relevance Outcomes

A combined ternary relevance outcome derived from the combined binary outcome is derived:

1. **Low Relevance:** PAI indicators with combined binary outcome of 'Not Relevant';
2. **Medium Relevance:** PAI indicators with combined binary outcome of 'Relevant' and an EET commitment rate above 25% (excl.) and up to 50% (incl.);
3. **High Relevance:** PAI indicators with combined binary outcome of 'Relevant' and an EET commitment rate above 50%.

For the potential new PAI indicators, the relevance criteria above are not applied; instead, the combined relevance outcome is determined directly against the proposed SFDR 2.0 framework.

Third Step – Product Category-Specific Relevance Outcomes

A product category-specific ternary relevance outcome (Low / Medium / High) is derived from the combined ternary relevance outcome.²⁹ The combined ternary relevance outcome is subsequently reviewed by subject matter experts and adjusted, where necessary, to reflect product-specific considerations for the *Transition* and *Sustainable* categories. All adjustments are documented and supported by a rationale.

Fourth Step – Five-Level SFDR 2.0 Inclusion Classification

The product-specific ternary relevance outcome is finally translated into a five-level classification reflecting the potential inclusion of the PAI indicator in the final SFDR 2.0:

- **Removed:** Low Relevance PAI indicators that are considered as exclusions under the proposed SFDR 2.0.
- **De-emphasized:** Low Relevance PAI indicators that are not considered as exclusions under the proposed SFDR 2.0 (*PAI indicators that were relevant under SFDR 1.0 but are expected to significantly reduce in prominence under the final SFDR 2.0*).
- **Retained (monitor):** Medium Relevance PAI indicators (*still in scope but with lower confidence, these PAI indicators should be included with caution*).
- **Retained (core):** High relevance PAI indicators (*high probability of inclusion into the final SFDR 2.0, these PAI indicators are recommended for prioritization*).
- **Added:** Potential new PAI indicators in the final SFDR 2.0.

As a result, all SFDR 1.0 PAI indicators are retained and assigned an inclusion classification, while a limited number of potential new PAI indicators are also identified. More details are available in the PAI relevance review mapping file.³⁰

Methodology Context

The SFDR 2.0 Readiness Solution was developed to support users in transitioning from SFDR 1.0 to the proposed SFDR 2.0 by providing access to relevant Morningstar Sustainalytics data sets. The solution is designed to support all the steps required to assess whether an investee company is eligible under the proposed new sustainable investment regulatory regime, into which product category and subcategory it falls, and which PAIs generated by its economic activity could still be relevant to be disclosed. For this purpose, the solution identifies and maps relevant sustainability, climate, governance, controversy, and product involvement data sets.

The solution leverages existing Morningstar Sustainalytics data sets to map available data points to the applicable proposed SFDR 2.0 requirements.

The mapping framework is based on three mapping files attached to each of the three components of the SFDR 2.0 Readiness Solution (exclusion criteria, product classification, and PAI relevance review). The mapping files contain the complete list of proposed SFDR 2.0 requirements and the corresponding Morningstar Sustainalytics data points mapped to those requirements.

These mapping files also provide supporting methodological information, including a fit assessment on four levels of each data point mapped (except for the Product classification mapping file that contains only the best available Morningstar Sustainalytics data points).

Categories

The SFDR 2.0 Readiness Solution methodology does not define rating categories, or absolute or relative value categories. This methodology only provides relevance categories (and categories derived from them) in its PAI relevance review and classification roles in its Product classification components. Therefore, no rating categories are designated for this product.

Benchmarking

The SFDR 2.0 Readiness Solution methodology does not apply benchmarking. No benchmarks or comparison indices are designated for this product.

Data Sources

Data sources are specific to each underlying methodology used by the SFDR 2.0 Readiness Solution. Please refer to the relevant methodologies for more details.

The SFDR 2.0 Readiness Solution data set incorporates two primary data source types: Reported and Estimated data. Reported data represents data fields obtained from publicly disclosed company information. Estimated data represents values generated through estimation methodologies.^{[31](#)}

Public data sources may include annual reports and financial statements, sustainability and climate-related disclosures, company policies, and regulatory filings.

In addition to the data fields stemming from various Morningstar Sustainalytics products, the SFDR 2.0 Readiness Solution uses the following references:

- A representative sample of SFDR 1.0 Article 9 funds' characteristics from fund managers' **European ESG Templates (EET)** that feeds the PAI relevance review component; and
- Various EU regulatory texts that are publicly available and listed in all three mapping files.

Research Approach

The research update process (timeline, frequency, and resources) is specific to each underlying methodology used by the SFDR 2.0 Readiness Solution. Please refer to these methodologies for more details (please see the [Appendix](#) for AppendixAppendixAppendix the various underlying methodologies mapped to the SFDR 2.0 Readiness Solution components).

The SFDR 2.0 Readiness Solution supports users by providing data that can be leveraged to meet proposed SFDR 2.0 requirements. It combines data sets from various Morningstar Sustainalytics research and screening products into dedicated SFDR 2.0 Readiness Solution deliverables.

Measures of Fit

Fit is the criterion used to map a given data point from Morningstar Sustainalytics to a specific proposed SFDR 2.0 requirement and represents the degree of definitional coherence between the mapped data point and the applicable proposed SFDR 2.0 requirement. 'Coherence' refers to the degree to which the definition of the data point mapped by Morningstar Sustainalytics corresponds to the proposed SFDR 2.0 requirement. The level of Fit is determined individually for each mapped data point or combination of data points relative to a specific proposed SFDR 2.0 requirement, as described in the relevant mapping sections of the methodology. The mapping framework distinguishes between four levels of Fit: **Exact Fit**, **Partial Fit**, **Minimum Fit** and **No Coverage**. This mapping framework is intended to support transparency, regarding the degree of alignment between available data sets and proposed SFDR 2.0 requirements.

Engagement

The engagement process (timeline, frequency, and resources) with researched items and investee companies is specific to each underlying methodology used by the SFDR 2.0 Readiness Solution. Please refer to these methodologies for more details. See the [Appendix](#) AppendixAppendixAppendixfor various underlying methodologies mapped to the SFDR 2.0 Readiness Solution components.

Timeframe

Reported and estimated data inputs are intended to be updated on an annual basis to account for updated reporting and a changing operating environment for companies.

SFDR 2.0 Readiness Solution considerations are current and valid from their date of publication until one of the following occurs:

- A new SFDR 2.0 Readiness Solution data point is published: When a new set of data points is issued, the most recent published version replaces the prior version.
- The company is no longer included in the Morningstar Sustainalytics Product universe: If a company is removed from the universe, the previously delivered set of data points may continue to exist within historical data sets. However, once the company is no longer monitored, the continued validity of its set of data points cannot be assured.
- Morningstar Sustainalytics withdraws the data point: In rare cases, Morningstar Sustainalytics may inform stakeholders that a data point has been withdrawn due to a material error, an exceptional situation that requires re-evaluation, or internal processing or a quality control issue. In such instances, Morningstar Sustainalytics may notify stakeholders that the data point has been withdrawn and that the last published consideration is no longer valid.

Governance, Review, and Market Consultation

Governance

Any material and non-material modifications to the SFDR 2.0 Readiness Solution methodology can only be implemented following formal approval by the ESG Methodology Review Group. This group comprises senior subject matter experts from the Research & Methodology Team.

Review

Morningstar Sustainalytics conducts structured internal reviews of the SFDR 2.0 Readiness Solution methodology to ensure that it continues to meet the criteria established in the Methodology Development & Modification Policy. Reviews are scheduled to take place within one calendar year of the previous review but are also required whenever there is a material modification to an underlying methodology.

Market Consultation

Market consultation for the methodology may be conducted during any modification of this methodology. These consultations are subject to the External Consultation Global Procedure.

Initial Solution Consultation

During early-stage development, clients may be consulted to evaluate whether preliminary methodological approaches align with intended use cases. This consultation is open to all clients that have signaled that they are interested in providing input on Morningstar Sustainalytics' methodologies.

Final Prototype Consultation

For non-rating methodologies, external consultation may be conducted during the final prototype phase in the form of general market feedback. This consultation is publicly available on Morningstar Sustainalytics' website and any person or organization can provide feedback.

Revisions

The two main predictable structural revision triggers will follow two regulatory milestones:

1. The entry into force of the final SFDR 2.0 text, and
2. Its official application once the RTS is published.

Beyond these two predictable revisions, the underlying Morningstar Sustainalytics methodologies and research feeding the SFDR 2.0 Readiness Solution are periodically revised and updated to ensure that they remain relevant and substantive. This process may result in changes, such as the development of new ESG components, structural enhancements to existing components, or updates to data sources.

Methodology revisions are typically driven by relevant ESG developments, such as emerging themes that are not well captured within Morningstar Sustainalytics existing frameworks, regulatory developments beyond the two previously mentioned, or modifications in data sources.

Typically, these updates take place on an annual basis. Before releasing a revised methodology, the ESG Methodology team conducts a comprehensive assessment of the impact of the proposed changes. These analyses evaluate how the changes will affect the SFDR 2.0 Readiness Solution and help determine whether they deliver the desired outcomes.

All methodology reviews are conducted in accordance with the Morningstar Sustainalytics Methodology Development & Modification Policy and any proposed changes require the approval of Morningstar Sustainalytics' ESG Methodology Review Group.

Appendix

Underlying Morningstar Sustainalytics products

List of Morningstar Sustainalytics products feeding proposed SFDR 2.0 Readiness Solution's components.

Morningstar Sustainalytics Product	Proposed SFDR 2.0 Readiness Solution's Component(s)
ESG Risk Ratings (ESG RR)	Product classification
Low-Carbon Transition Rating (LCTR)	Exclusion criteria, Product classification
Net-Zero Investment Framework (NZIF) Data Solution	Product classification
EU Taxonomy Solution	Product classification
CSRD Double Materiality Assessment tool (CSRD DMA)	PAI Relevance Review
Sustainable Finance Disclosure Regulation (SFDR) PAI Data Solution	Product classification, PAI Relevance Review
EU Benchmarks Data Solution (BMR – Benchmark Regulation)	Product classification
Impact Metrics Framework	Product classification, PAI Relevance Review
Carbon Data Package ³²	Product classification, PAI Relevance Review
Physical Climate Risk Metrics (PCRM)	Product classification
Product Involvement (PI)	Exclusion criteria, Product classification, PAI Relevance Review
Controversial Weapons Radar (CWR)	Exclusion criteria
Controversy Ratings	Exclusion criteria, Product classification, PAI Relevance Review
Global Standards Screening (GSS)	Exclusion criteria, Product classification, PAI Relevance Review
Country Risk Ratings (CRR)	PAI Relevance Review
Country Screening	PAI Relevance Review
ESG Data	PAI Relevance Review

Glossary of Terms

Definitions of key terms or acronyms used in the methodology and the product.

European ESG Template (EET)	Standardized data exchange framework developed by FinDatEx, Financial Data Exchange Templates, a collaborative initiative established by representatives of the European financial services sector to standardize how data is exchanged between financial institutions — to help financial market participants (FMPs) seamlessly share Environmental, Social, and Governance (ESG) data and comply with European regulatory requirements such as the Sustainable Finance Disclosure Regulation (SFDR).
Exact fit	Denotes a case where the data point provided by Morningstar Sustainalytics is fully covering the proposed SFDR 2.0 requirement.
Exclusion criteria	In the context of the proposed SFDR 2.0, exclusion criteria are mandatory, binary investment screens largely borrowed from the EU Paris-aligned Benchmark exclusions list that strictly prohibit financial products from investing in companies involved in harmful activities—such as prohibited weapons, tobacco, severe ESG violations, significant fossil fuel-related activities or expansion of these activities—as a prerequisite for qualifying under the newly proposed <i>ESG Basics</i> , <i>Transition</i> , or <i>Sustainable</i> product categories.
Financial Market Participants (FMPs)	In the context of the SFDR, Financial Market Participants (FMPs) are entities such as asset managers, institutional investors, pension providers, and insurance companies that manufacture financial products or provide portfolio management services within the European Union.
Minimum fit	Denotes a case where the data point provided by Sustainalytics covers the proposed SFDR 2.0 requirement to a minimum extent.
No coverage	Denotes a case where no data point from Morningstar Sustainalytics is suitable to cover the proposed SFDR 2.0 requirement.
Partial fit	Denotes a case where the data point provided by Morningstar Sustainalytics covers the proposed SFDR 2.0 requirement only to a significant extent, but not fully.
Principal Adverse Impacts (PAIs)	Principal Adverse Impacts (PAIs) are the negative, material effects that an entity's investment decisions and financial products have on sustainability factors, such as environmental, social, employee, and human rights issues, which must be measured and disclosed. Under the November 2025 SFDR 2.0 proposal, no list of mandatory or voluntary PAIs disclosures is available yet.
Product classification	Formal categorization system in which a product must actively qualify for one of the proposed product categories, <i>ESG Basics</i> , <i>Transition</i> , or <i>Sustainable</i> , by meeting the investment thresholds and the applicable exclusions. Within each of these three product categories, product subcategories are defined and focus on various sustainability factors, such as EU Taxonomy-aligned investments, and investments in investee companies whose ESG rating outperforms that of their peers.
Regulatory Technical Standards (RTS)	Regulatory Technical Standards (RTS) are binding, directly applicable delegated acts that flesh out the technical detail of a legislative act, which are drafted by the relevant European Supervisory Authority [including the European Banking Authority (EBA), European Securities and Markets Authority (ESMA), or European Insurance and Occupational Pensions Authority (EIOPA)] under a mandate in the parent regulation or directive, then adopted by the European Commission and subject to scrutiny by the European Parliament and Council before publication in the Official Journal.
Sustainable Finance Disclosure Regulation (SFDR)	The Sustainable Finance Disclosure Regulation (SFDR) is a European Union framework that mandates financial market participants (FMPs) to transparently disclose how they integrate environmental, social, and governance (ESG) factors into their investment decisions and financial products.

Endnotes

¹ [SFDR 1.0: Regulation EU 2019/2088](#).

² The dates of entry into force and application of this new regime are still uncertain. The November 2025 regulation proposal can be found in the [Document 52025PC0841 2025/0361\(COD\)](#).

³ Please reach out to your Morningstar Sustainalytics product representative to access these documents.

⁴ As the focus of this methodology is on financial products with sustainability features at least equivalent to the proposed SFDR 2.0 *ESG Basics* product category, the current Article 6 was voluntarily omitted.

⁵ Please reach out to your Morningstar Sustainalytics product representative to access these documents.

⁶ Financial instrument (e.g. debt instrument) issued by an investee company.

⁷ The PAI review relevance component has an exception to this rule, as it is based on the current data set provided with the Morningstar Sustainalytics product SFDR PAI Data Solution that includes management indicators.

⁸ Please see Article 8(1) and Article 9(1) of the November 2025 SFDR 2.0 regulation proposal available under [Document 52025PC0841 2025/0361\(COD\)](#).

⁹ Please reach out to your Morningstar Sustainalytics product representative to obtain more information on other data sets available at Morningstar.

¹⁰ Please reach out to your Morningstar Sustainalytics product representative to obtain more information on other data sets available at Morningstar.

¹¹ There will be a transition period between SFDR 1.0 and the final SFDR 2.0, during which SFDR 1.0 remains in force until the SFDR 2.0 proposal is finalized and its application date is reached.

¹² Article 8 of the November 2025 European Commission SFDR 2.0 regulation proposal available under [Document 52025PC0841 2025/0361\(COD\)](#).

¹³ Article 7 of the November 2025 European Commission SFDR 2.0 regulation proposal available under [Document 52025PC0841 2025/0361\(COD\)](#).

¹⁴ Article 9 of the November 2025 European Commission SFDR 2.0 regulation proposal available under [Document 52025PC0841 2025/0361\(COD\)](#).

¹⁵ Proposed SFDR 2.0 framework available under [Document 52025PC0841 2025/0361\(COD\)](#): Article 7(1b, 1c), Article 8(1b), Article 9(1b, 1c).

¹⁶ [Commission Delegated Regulation \(EU\) 2020/1818 of 17 July 2020 supplementing Regulation \(EU\) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks](#).

¹⁷ Article 10 is dedicated to exclusions for EU Climate Transition Benchmarks and refers to Article 12's exclusions.

¹⁸ The mandatory nature of each of these exclusions, as well as their exceptions, depends on each product category.

¹⁹ Please reach out to your Morningstar Sustainalytics product representative to access this document.

²⁰ Depending on the legislative scrutiny, the specific threshold figures and the equivalence mechanism with the EU Taxonomy are subject to change.

²¹ Please reach out to your Morningstar Sustainalytics product representative to access this document.

²² The mapped data fields generally come from Morningstar Sustainalytics products; the only exception to this rule is 'Carbon Data Package', which is an internal data set used across multiple Morningstar Sustainalytics products.

²³ In the SFDR 2.0 proposal, only the *Transition* and *Sustainable* product categories require the disclosure of PAIs. Accordingly, the SFDR 2.0 Readiness Solution reviews the relevance of PAIs for these two categories only.

²⁴ Please refer to Annex I of SFDR 1.0 RTS: [Commission Delegated Regulation \(EU\) 2022/1288 supplementing the Sustainable Finance Disclosures Regulation \(EU\) 2019/2088](#).

²⁵ For more information, please reach out to your Morningstar Sustainalytics product representative or alternatively consult the <https://www.sustainalytics.com/investor-solutions/esg-regulatory-solutions/eu-sustainable-finance-action-plan-solutions/csr-d-solutions> page.

²⁶ The Morningstar Sustainalytics CSRD DMA tool is based on both impact and financial perspectives. In the context of the PAI Relevance Review component of the SFDR 2.0 Readiness Solution, only the impact perspective is considered.

²⁷ In the SFDR 2.0 proposal, only the *Transition* and *Sustainable* product categories require the disclosure of PAIs.

²⁸ Please refer to the associated mapping file for more detailed information on these rules.

²⁹ Please refer to the associated mapping file for more detailed information on this derivation.

³⁰ Please reach out to your Morningstar Sustainalytics product representative to access this document.

³¹ Please see underlying research products methodologies for relevant information related to estimated data. Please see Morningstar Sustainalytics SFDR 2.0 Readiness Solution's three deliverables for data fields using estimates. Please request the document from your client advisor.

³² The mapped data fields generally come from Morningstar Sustainalytics products; the only exception to this rule is 'Carbon Data Package', which is an internal data set used across multiple Morningstar Sustainalytics products.

Change Log

Version	Administrative Iteration	Date	Initiator	Main items that changed	Rationale
1.0	1	05.10.2026	ESG Methodology, Regulatory Methodology Design	Initial version	N/A

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