

EUROPE REGIONAL OVERVIEW

The European sustainable investment market faced a complex environment during 2022-2023, characterised by evolving regulatory frameworks and challenging market conditions. Despite these headwinds, Europe continued to demonstrate leadership in sustainable finance and maintained its position as a major sustainable investment hub.

Economic & Political Context

Europe entered 2023 still navigating the economic consequences of Russia's invasion of Ukraine, an energy price shock, and record inflation. The European Commission and national governments responded with measures to stabilise energy supply and accelerate investment in renewables. At the same time, the overarching sustainability agenda, and in particular the European Green Deal, has increasingly been framed through the lens of competitiveness, energy security, and industrial resilience.

In June 2024, the European Parliament elections led to a stronger representation of right-wing and far-right political groups to the detriment of left-wing, green and liberal groups. In consequence, EU institutions' political priorities shifted towards reducing perceived regulatory burdens across Europe to encourage growth. This marked the start of an EU-wide regulatory simplification agenda which is mainly targeting sustainability rules to roll back their provisions.

Regulatory & Policy Drivers

Sustainable Finance Disclosure Regulation (SFDR)

The SFDR dominated the regulatory landscape during 2022-2023, fundamentally reshaping disclosures on sustainable funds and how they are marketed across the EU.

[Clarification](#) by the European Securities and Markets Authority (ESMA) on how to apply the regulation created significant market adjustment, with over 300 funds with sustainable investment objectives (also referred to as "Article 9" products) being downgraded to products promoting environmental or social characteristics (so called "Article 8") in late 2022.

This wave of reclassifications reflected both regulatory uncertainty and the challenging process of interpreting the "sustainable investment" definition under SFDR. Asset managers adopted a cautious approach, leading to reduced new product launches as they awaited further regulatory guidance.

In December 2023, the European Commission launched a comprehensive consultation on SFDR, signalling potential major amendments to the framework. While a vast majority of respondents supported its objective to provide transparency over sustainability-related investments, the results of the consultation demonstrated growing concerns about unclear definitions, usability challenges, and challenges regarding coherence with other EU rules. A proposal for a review of SFDR is expected to be published in Q4 2025.

Sustainability preferences (MiFID/IDD)

The MiFID II/IDD [amendment on sustainability preferences](#), which came into effect in August 2022, introduced mandatory consideration of client sustainability preferences in investment advice.

These rules involve asking clients if they wish to invest sustainably, and, if so, guiding them towards a range of suitable products defined as sustainable investments under SFDR, offering a certain level of the EU Taxonomy alignment, and / or considering Principal Adverse Impacts (PAI).

While asking clients about their sustainability preferences is a welcome step forward, retail investors often struggle to understand the differences between sustainable investments and EU Taxonomy alignment. The concept of considering Principal Adverse Impacts is also not straightforward.

In addition, the rules do not explicitly refer to Article 8 products, which currently make up a significant portion of sustainability-related investments on the market.

Ensuring that the MiFID II and IDD rules on sustainability preferences are properly aligned with the categories under the SFDR has been recognised by the European Commission as a challenge and is expected to be addressed in its forthcoming review.

ESMA publications and supervisory actions

In May 2024, ESMA issued [guidance](#) on fund names using ESG or sustainability-related terms, mandating that these funds must invest at least 80% of assets in line with their stated objectives and respect minimum exclusions in line with the Paris-Aligned Benchmarks and Climate Transition Benchmarks exclusions. This triggered one of the largest rebranding exercises in the market: by early 2025, Morningstar [reported](#) over 330 funds had changed their names, with more than 100 dropping ESG terminology altogether.

In July 2023, ESMA launched a [common supervisory action](#) with EU National Competent Authorities on sustainability-related disclosures, assessing compliance with SFDR, Taxonomy regulation, and implementing measures. This coordinated approach aimed to foster convergence in supervisory practices across member states through 2024. The [results](#) published in June 2025 showed an overall satisfactory level of integration of sustainability risks and disclosures.

During 2023 and 2024, ESMA published a [progress](#) report and a [final](#) report on greenwashing. Through these reports, ESMA suggested a common definition of greenwashing, identified potential channels and drivers across the financial system, and provided recommendations to National Competent Authorities to tackle related risks.

Sustainability reporting

2024 marks the first year of the Corporate Sustainability Reporting Directive ([CSRD](#)). This directive requires large EU companies to publish sustainability-related disclosures. Reporting must be conducted in line with the European Sustainability Reporting Standards (ESRS), which were developed in parallel and [adopted in July 2023](#). The ESRS provide a harmonised framework that requires companies to report in detail on their sustainability impacts, risks, and opportunities across Environmental, Social and Governance topics. The first sustainability reports in line with the CSRD were published in 2025.

However, as part of the EU's simplification agenda, the European Commission published an [Omnibus simplification initiative](#) in February 2025, proposing to roll back certain CSRD requirements. Among other changes, the proposal suggests reducing the scope of companies covered by more than 80%. This development has created significant regulatory uncertainty for both investors and reporting entities, which remains unresolved as interinstitutional negotiations on the proposal are expected to continue until the end of 2025 or early 2026.

Additionally, the EU standard-setting body EFRAG was tasked with simplifying the ESRS. In July 2025, EFRAG made a [proposal](#) to streamline and improve usability of the standards, reducing by 57% the number of data points. These proposals were open to public consultation, and EFRAG will share its final advice to the European Commission by the end of November 2025.

European Green Bond Standard

In 2023, the European Green Bond Standard Regulation was [adopted](#), establishing comprehensive requirements for companies choosing to market EU Green Bonds. The Standard mandates disclosure of the usage of bond proceeds, requiring at least 85% to be allocated to activities aligned with the EU Taxonomy. The regulation also sets up a framework for registration and supervision for external reviewers of European Green Bonds. The first European Green Bonds were issued starting 2025, attracting a significant level of demand, with the main issuer, the European Investment Bank (EIB) raising EUR 3 billion.

EU Taxonomy developments

In June 2023, the EU Taxonomy was [expanded](#) beyond climate mitigation and adaptation to cover circular economy, pollution prevention, water and marine resources, and biodiversity. The new Taxonomy criteria introduced 35 activities across eight economic sectors which apply as of January 2024.

The [Omnibus simplification](#) initiative published by the European Commission in February 2025 affects the scope of the Taxonomy reporting, reducing the number of companies required to report against the Taxonomy by 80%. Additionally, in July 2025, the European Commission proposed significant reliefs for Taxonomy reporting via [adjustments](#) to technical legal acts.

ESG Rating Provider Regulation

A comprehensive regulation on ESG rating providers was [adopted](#) in November 2024, establishing requirements for conflict-of-interest management and transparency especially regarding methodology used. The rules mandated that EU and non-EU entities wishing to provide ESG ratings in the EU must be authorised and endorsed by ESMA, creating a unified supervisory framework.

Customer drivers

Institutional investors continued to drive integration of sustainability matters in investments across 2022 and 2023, with 67% of asset owners [citing](#) ESG matters becoming more material to investment policy in the last five years and 46% of their assets under management integrating ESG considerations.

Retail investors and advisers demonstrated ongoing interest but faced complexity. Under MiFID II/IDD, advisers must capture client sustainability preferences. In practice, many defaulted to recommending broad ESG or Paris-aligned funds for clients with general interest, reserving thematic or transition strategies for cases where clients expressed explicit priorities such as biodiversity. This created a pattern of strong flows into mainstream ESG funds, with more selective uptake of niche products.

Market drivers

European sustainable fund flows demonstrated resilience despite challenging conditions. These customer preferences are reflected in the in- and out-flows of these funds

According to [Morningstar](#) data, the number of newly launched “Article 9” sustainable funds declined, with only 53 launches in Q1 2023 compared to 155 in Q4 2022. While the number of new launches was below the peak seen in 2021, the proportion of sustainable funds relative to all new products continued to rise, indicating consolidation rather than retreat.

After recording a period of net inflows, appetite for “Article 9” products slowed down starting Q4 2023, showing for the first time net outflows. Inflows towards “Article 8” products using ESG-related terms remained strong across 2023, while outflows increased for “Article 8” products not using these terms, showing a continued interest in products marketed as sustainable investments ([ESMA](#)).

Active “Article 8” funds faced outflows throughout end 2022 and 2023, with a recovery to net inflows at the start of 2024. Active “Article 9” funds, while registering inflows for most of the period, faced their first outflows in Q4 2023 and experienced consecutive quarters of redemptions through 2024. This contrasted with passive strategies, which maintained positive flows for both “Article 9” and “Article 8” products throughout the period, reflecting investor preferences ([Morningstar](#)).

Overall, while quarterly flows fluctuated, Europe’s sustainable fund market grew steadily across the two-year period. [Morningstar](#) data shows that in Q4 2023, assets in “Article 8” and “Article 9” funds rose to a historical high of EUR 5.2 trillion, constituting about 60% of the EU funds’ universe, however with a vast majority of “Article 8” funds (55.5%).

The structure of the market also matured. A smaller number of broad ESG and Paris-aligned equity funds absorbed the majority of flows, reflecting their role as “core” holdings in diversified portfolios. Alongside these, a growing range of funds were launched. In particular, transition-denominated funds attracted significant inflows during the period ([ESMA](#)) especially compared to other types of ESG funds.

About Us

Eurosif – the European Sustainable Investment Forum, is the leading pan-European association promoting sustainable finance at the European level. Its membership is comprised of Sustainable Investment Fora (SIFs) from across Europe. Most of these SIFs have a broad and diverse membership themselves, including asset managers, institutional investors, index providers and ESG (Environmental, Social and Governance) research and analytics firms. Eurosif and its members are committed to the growth and development of sustainable finance and support development of EU rules which are fit-for-purpose and facilitate the financial industry’s contribution to a just transition. More information is available at www.eurosif.org

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Member Events	Yes
Policy Influencing	Yes
Research	Yes
Education	Yes
Accreditation	No