

SEPTEMBER 24, 2025

THE EUROPEAN DEFENCE BOND LABEL: MOBILISING PRIVATE CAPITAL IN SUPPORT OF THE EUROPEAN DEFENCE SECTOR

Recent geopolitical developments have catalysed a reordering of European defence policy. The European Union has initiated significant efforts to revitalise and consolidate its defence and security industrial base through the Permanent Structured Cooperation, the European Defence Fund, the Strategic Compass for Security and Defence, the European Defence Industrial Strategy and the proposed European Defence Industry Programme. Other developments, such as a multilateral “Defence, Security and Resilience Bank” are planned to assist NATO countries and their allies to finance their defence needs, including by accessing the international capital markets.

In an effort to mobilise private capital to support the European defence sector, Euronext, a pan-European stock exchange and market infrastructure provider, recently launched the “**European Defence Bond Label**”.

WHAT IS THE EUROPEAN DEFENCE BOND LABEL?

The European Defence Bond Label is a voluntary, market-driven framework to provide a set of non-binding recommendations to help investors identify credible defence and security-related debt issuances listed on Euronext markets by corporates, financials, sovereigns and supranationals.

Issuers must be from the European Union, the European Economic Area (i.e., the EU, Norway, Iceland, Liechtenstein) or countries with formal cooperation agreements with the European Union (Switzerland, Ukraine, United Kingdom) or a country with bilateral security and defence partnerships or in active accession negotiations with the European Union (currently, Moldova, South Korea, Japan, Albania, North Macedonia and Montenegro) (each, “**Eligible Countries**”).

Subject to limited exceptions, net proceeds (or an amount equivalent to the net proceeds) must be allocated to financing and/or refinancing, in part or in full, new and/or existing eligible European Defence and Security related activities, and/or used by sovereign or supranational entities that earmark the net proceeds of the bond for the financing of European Defence and Security capabilities.

See the Annex for a definition of “**European Defence and Security**” and a non-exhaustive list of “**Eligible Use of Proceeds and Activities**” along with certain “**Exclusionary Criteria**”. We have set these out in full as they are detailed and will merit careful consideration by Issuers.

WHAT TYPES OF ISSUERS CAN USE THE EUROPEAN DEFENCE BOND LABEL?

Eligible non-financial corporates, sovereigns, quasi-sovereign, supranational entities and financial institutions can all use the label.

There are slight variations in eligibility dependent on the nature of the Issuer:

NON-FINANCIAL CORPORATIONS

Eligible non-financial corporations must either:

- be headquartered or incorporated in Eligible Countries; or
- generate or incur more than 50% of their revenues, capital expenditures, operating expenditures or payroll expenses within Eligible Countries.

If the above eligibility criteria are met:

- proceeds may be allocated to finance or refinance Defence and Security-related or Dual-Use activities. At least 85% of the net proceeds must be allocated to projects or operations that demonstrably contribute to the development, support, or deployment of European Defence and Security capabilities. The remaining 15% may be allocated to other economic activities, provided they do not contradict the objectives of the European Defence Bond Label; or
- in cases where proceeds are used for general corporate purposes rather than project level allocations, use of the European Defence Bond Label is only permissible if the Issuer generates more than 50% of its total revenues from Defence and Security-related activities. Regulation FD does not define materiality. In the Regulation FD adopting release, the SEC cited and discussed the leading Supreme Court cases regarding materiality, *TSC Industries v. Northway*, 426 U.S. 438 (1976) and *Basic v. Levinson*, 485 U.S. 224 (1988). Under those cases, information is considered material if there is a "substantial likelihood that a reasonable shareholder would consider it important" in making an investment decision, or if the facts "would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available." The Regulation FD adopting release also includes a non-exhaustive list of information or events that the SEC noted should be reviewed carefully to determine whether any such information or event, if disclosed, would likely be considered material. This list includes information and events relating to earnings information (including historical earnings information, earnings estimates and changes in previously released earnings estimates) and, in some circumstances, confirmation of previously issued guidance.

SOVEREIGN, QUASI-SOVEREIGN OR SUPRANATIONAL ENTITIES

Eligible sovereign, quasi-sovereign or supranational entities must be or be established in an Eligible Country. Supranational entities operating under a European mandate originating from an Eligible Country are also eligible.

The following activities may be financed or refinanced:

- Defence and Security-related activities that contribute to the development, reinforcement, or protection of European strategic autonomy and collective security. To be considered eligible, such expenditures must (i) fall within the scope of the European Defence and Security, and (ii) be entirely dedicated to capabilities, programmes, infrastructures or beneficiaries located in Europe or serving exclusively European interests; and
- export and import operations authorised under national and international regulations may also qualify as eligible activities, provided that:
 - For exports:
 - the defence equipment is produced by an eligible entity under the European Defence Bond Label;
 - the destination country is authorised under applicable national and European export control regimes; and
 - the transaction is explicitly approved by the national competent authority (e.g., via an export licence or intergovernmental agreement).
 - For imports:
 - the defence equipment is acquired by a non-financial corporate, sovereign, quasi-sovereign, or supranational entity from a European or non-European supplier duly authorised under European and national procurement rules, and the acquisition demonstrably supports European defence capabilities.
- the financing of non-European defence capabilities, including foreign military assets, industrial bases, or strategic interests located entirely outside Eligible Countries, remains excluded from the scope of eligible use of proceeds, unless explicitly authorised under national and European regulations.

FINANCIAL INSTITUTIONS

Eligible financial institutions must be headquartered, incorporated, or operating under a regulatory framework of an Eligible Country.

For financial institutions, the following activities may be financed or refinanced through European Defence Bonds:

- assets (notably including loans, credit lines or structured instruments) that benefit entities such as non-financial corporates, sovereign, quasi sovereign, or supranational entities that:
 - are primarily active in the European Defence and Security sector; or
 - use the financing for Defence and Security-related activities (CAPEX, OPEX, R&D);
- export and import operations strictly authorised under national and international regulations may also qualify as eligible activities, provided that:
 - for exports:
 - the defence equipment is produced by an eligible entity under this label, including eligible entities identified according to the Financial institutions' own eligibility assessment methodology, as defined below;

- the destination country is authorised under applicable national and European export control regimes;
- the transaction is explicitly approved by the national competent authority (e.g., via an export licence or intergovernmental agreement); and
- for imports:
 - the defence equipment is acquired by a non-financial corporate, sovereign, quasi-sovereign or supranational entity from a European or non-European supplier duly authorised under European and national procurement rules, and the acquisition demonstrably supports European defence capabilities;
- assets (notably including loans, credit lines or structured instruments) dedicated to Defence and Security equipment, services contracts and transactions, in domains or activities listed as Eligible Use of Proceeds and Activities (as defined in the Annex).

Where the Financial institution does not have access to granular quantitative data (such as revenue, CAPEX, OPEX, or payroll breakdowns by geography), it must have a documented internal process in place to assess the eligibility of financed entities. This process may rely on credible sources such as:

- recognised industry lists;
- sectoral associations or industry syndicates;
- national or supranational defence registers; or
- classification frameworks which reasonably establish that the borrower is active in the European Defence and Security sector.

The financial institution is also required to document its eligibility assessment methodology and ensure traceability of the allocation of proceeds to qualified borrowers, contracts and transactions, in line with the label's objectives of supporting European strategic autonomy, security resilience, and the development of a robust European Defence and Security industrial base.

WHAT TYPES OF INSTRUMENT CAN BE ISSUED?

All debt instruments are eligible under the label, irrespective of their structure or seniority. This includes, but is not limited to senior unsecured and secured bonds, subordinated debt, hybrid instruments, convertible bonds, asset-backed securities, and multi-tranche issuances (with each tranche assessed independently).

They must be listed on a Euronext market.

WHAT CAN THE PROCEEDS BE USED FOR?

Net proceeds (or an amount equivalent to the net proceeds) must be allocated to financing and/or refinancing, in part or in full, new and/or existing eligible European Defence and Security related activities, and/or by sovereign or supranational entities that earmark the net proceeds of the bond for the financing of European Defence and Security capabilities.

See the Annex for a definition of **European Defence and Security** and a non-exhaustive list of **Eligible Use of Proceeds and Activities**.

ARE THERE EXCLUSIONARY CRITERIA FOR THE USE OF PROCEEDS?

Yes, see the Annex for the Exclusionary Criteria.

IS A SECOND PARTY OPINION OR EXTERNAL VERIFICATION REQUIRED?

No, the European Defence Bond Label relies on self-certification and does not require a second party opinion or external verification.

Euronext requires issuers to complete a **standardised self-declaration** confirming compliance:

- **At issuance:** the self-declaration must be signed at the time of listing as a condition for obtaining the label.
- **Framework issuers:** those with a published internal or external framework governing the allocation of proceeds to eligible defence and security activities may submit a single self-declaration annually, at Issuer level, on the anniversary of their first labelled issuance.
- **Non-framework issuers:** those without such a framework must submit a self-declaration for each labelled instrument, both at issuance and annually for each outstanding bond.
- **Ongoing compliance:** annual declarations are designed to ensure continued alignment with label requirements and disclosure of any material changes in use of proceeds, bond structure or issuer eligibility.
- **Grandfathering:** bonds already labelled under earlier rules retain that status until maturity, provided ongoing reporting obligations are met.
- **Sanctions:** failure to submit required declarations may lead to suspension or withdrawal of the label at Euronext's discretion.

CAN AN INSTRUMENT ISSUED UNDER THE EUROPEAN DEFENCE BOND LABEL ALSO QUALIFY AS AN INTERNATIONAL CAPITAL MARKET ASSOCIATION (ICMA) GREEN, SOCIAL OR SUSTAINABLE (GSS) BOND?

Whilst not commenting specifically on the European Defence Bond Label, in June 2025, ICMA updated its Guidance Handbook highlighting that defence was not envisaged under any of ICMA's GSS specific eligible project categories and confirming the "likely ineligibility" of defence projects for GSS Bonds.

WHAT OTHER REQUIREMENTS ARE THERE?

The following apply to all Issuers:

- Issuers are encouraged to demonstrate that 85% of the proceeds, or the general activities of the ultimate beneficiary, are intended to serve European Defence and Security needs, and do not contribute to activities that could undermine European safety or autonomy. This may include a majority of revenues, contracts, or end-user benefits linked to European programmes, institutions, or armed forces.
- All Issuers and financed activities must comply with applicable European and national regulations, including those governing the Defence and Security industry, Dual-Use technologies, trade controls, and export/import restrictions. Exclusions under this label are strictly limited to armament activities prohibited under international treaties ratified by the relevant country.

When proceeds are intermediated through financial institutions, these entities are expected to ensure, through internal policies and due diligence, that their financed activities also comply with these operational and legal principles.

WHAT ELSE DO I NEED TO KNOW ABOUT THE EUROPEAN DEFENCE BOND LABEL?

Issuers are encouraged to disclose:

- internal policies and processes for export/import control compliance;
- the geographical scope of financed activities, especially where exports/imports or Dual-Use items are involved;
- any screening mechanisms used to prevent financing of activities that may conflict with European foreign policy, international humanitarian law, or international arms control agreements; and
- policies on human rights, corruption, export/import control and data security, as well as on anti-money laundering and terrorist financing if applicable.

Issuers are encouraged to report regularly on the allocation of proceeds, where feasible, including information on financed activities and their alignment with the eligibility criteria.

The European Defence Bond Label benefits from a fast track admission process. For debt instruments aligned with the label, Euronext will prioritise the handling of listing applications to the fullest extent possible within its internal processes. Label confirmation is expected to be issued within one to three business days following submission of the self-declaration.

WHAT DOES THIS MEAN FOR OFFERING DOCUMENTATION?

As with any thematic use of proceeds debt offering, we would typically expect certain features to appear in the offering documentation in advance of an issuance, including:

- a description of the use of proceeds;
- a description of how the Issuer intends to report on the allocation and utilisation of proceeds and the frequency of reporting;
- key risk factors associated with the use of the European Defence Bond Label, for example:
 - non-alignment with ICMA Green, Social or Sustainable Principles;
 - no second party opinion or external verification;
 - if applicable, no independent tracking of proceeds;
 - that the instruments may not be suitable for all investors and may not align with their existing exclusionary criteria;
 - potential for negative impact on the liquidity or demand for the instruments due to some investors excluding defence related products from their portfolio;¹ and
 - risks related to non-allocation or delays in allocation.

Euronext will also require the inclusion of a disclaimer that its review of the eligibility criteria is strictly limited to verifying the formal consistency and completeness of the Issuer's self-declaration form and does not constitute any form of certification, validation, or due diligence of the Issuer's disclosures.

¹ Note, however, that we understand some investors are changing their exclusion or ESG policies to allow defence sector exposure (or scale back previous exclusions).



The Free Writings & Perspectives, or FW&Ps, blog provides news and views on securities regulation and capital formation. The blog provides up-to-the-minute information regarding securities law developments, particularly those related to capital formation. FW&Ps also offers commentary regarding developments affecting private placements, mezzanine or “late stage” private placements, PIPE transactions, IPOs and the IPO market, new financial products and any other securities-related topics that pique our and our readers’ interest. Our blog is available at: www.freewritings.law.

CONTACTS

For more information about the topics raised in this Legal Update,
please contact any of the following lawyers.

PETER PEARS

+44 20 3130 3297

PPEARS@MAYERBROWN.COM

PATRICK SCHOLL

+49 69 7941 1060

PSCHOLL@MAYERBROWN.COM

MARCEL HÖRAUF

+49 69 7941 2236

MHORAUF@MAYERBROWN.COM

ALEXEI DÖHL

+49 69 7941 1105

ADOEHL@MAYERBROWN.COM

MUSONDA KAPOTWE

+44 20 3130 3778

MKAPOTWE@MAYERBROWN.COM

JAMES TAYLOR

+44 20 3130 3136

JTAYLOR@MAYERBROWN.COM

ROB FLANIGAN

+44 20 3130 3488

RFLANIGAN@MAYERBROWN.COM

ZEESHAN HUSSAIN

+44 20 3130 3358

ZHUSSAIN@MAYERBROWN.COM

AMERICAS | ASIA | EMEA

MAYERBROWN.COM

Mayer Brown is a leading international law firm positioned to represent the world’s major corporations, funds and financial institutions in their most important and complex transactions and disputes. Please visit www.mayerbrown.com for comprehensive contact information for all our offices. This Mayer Brown publication provides information and comments on legal issues and developments of interest to our clients and friends. The foregoing is not a comprehensive treatment of the subject matter covered and is not intended to provide legal advice. Readers should seek legal advice before taking any action with respect to the matters discussed herein. Mayer Brown is a global services provider comprising associated legal practices that are separate entities, including Mayer Brown LLP (Illinois, USA), Mayer Brown International LLP (England & Wales), Mayer Brown (a Hong Kong partnership) and Tauil & Chequer Advogados (a Brazilian law partnership) and non-legal service providers, which provide consultancy services (collectively, the “Mayer Brown Practices”). The Mayer Brown Practices are established in various jurisdictions and may be a legal person or a partnership. PK Wong & Nair LLC (“PKWN”) is the constituent Singapore law practice of our licensed joint law venture in Singapore, Mayer Brown PK Wong & Nair Pte. Ltd. Details of the individual Mayer Brown Practices and PKWN can be found in the Legal Notices section of our website. “Mayer Brown” and the Mayer Brown logo are the trademarks of Mayer Brown.

ANNEX

“European Defence and Security” means the European defence and security sector encompassing the set of industrial, technological, service-based and institutional actors established within Eligible Countries whose activities contribute directly or indirectly to the development, production, maintenance, operation or protection of systems, capabilities and infrastructures that support national and collective defence, internal and external security and the strategic autonomy of Europe.

This includes manufacturers of military platforms, systems and equipment (such as vehicles, vessels, aircraft, weapons, sensors and protective technologies), as well as suppliers of critical subsystems and components (including propulsion, electronics, communications and advanced materials).

It also covers cybersecurity, surveillance and intelligence providers involved in protecting digital infrastructure and national sovereignty, as well as operators of Dual-Use space assets.

Entities active in Defence and Security-related R&D, engineering, logistics, maintenance or the safeguarding of critical infrastructure are also included, alongside financial institutions facilitating dedicated investment or lending to European Defence and Security actors, or to acquisitions or purchases benefiting European countries by reinforcing their military capabilities. The sector also comprises sovereign, quasi-sovereign and supranational bodies funding or conducting missions that enhance European Defence and Security resilience. Activities are included based on their primary purpose and effective contribution to European Defence and Security objectives, and must comply with applicable international laws.

“Eligible Use of Proceeds and Activities.” The following non-exhaustive list of domains or activities are examples of categories and activities that are considered to be eligible use of proceeds:

- research, development and industrialisation of defence systems (including prototypes, Dual-Use technologies, advanced materials, testing and certification phases);
- manufacturing, production, assembly and integration of military equipment and platforms (aerial, naval, terrestrial and space-based), including unmanned systems and autonomous technologies;
- upgrade and modernisation of existing military platforms or systems (weapons, communications, avionics, propulsion, survivability enhancements, etc.);
- cyber defence, digital sovereignty, and secure communication systems, including encryption, infrastructure hardening and zero-trust architectures;
- surveillance, intelligence, reconnaissance and early-warning systems, including ground-based, airborne or space-based assets;
- development and protection of critical infrastructure essential to defence resilience (e.g., defence tech hubs, raw material processors, strategic logistics nodes, sovereign data centres);
- military logistics, maintenance and operational support chains, including fuel, ammunition, warehousing, transport and MRO (maintenance, repair and overhaul);
- infrastructure dedicated to national or collective defence (e.g., training facilities, command centres, hardened military bases);
- Dual-Use projects with a clear strategic security purpose (e.g., quantum computing, high-performance computing, robotics, advanced optics, semiconductor fabrication plants);
- security of supply chains for defence and security purposes, including reshoring or diversification of critical dependencies;
- space and satellite infrastructure dedicated to secure communications, earth observation, navigation or military operations;

- civil protection and crisis response capabilities (e.g., CBRN defence, emergency response logistics, resilience against hybrid threats); and
- services directly enabling defence capabilities, such as engineering, simulation, tactical software or specialist recruitment and training.

In addition, proceeds shall only finance activities or entities that:

- comply with the European Union's legal and strategic frameworks on defence, security and civil protection; and
- are consistent with relevant European policies such as the Strategic Compass, the European Defence Fund, the European Peace Facility or national defence plans aligned with European strategic objectives.

Exclusions

The following are excluded from the European Defence Bond Label:

- companies involved in the development, production or trade of nationally or internationally prohibited weapons, including chemical weapons, biological weapons, anti-personnel mines, cluster munitions and nuclear weapons not compliant with the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), as defined by the relevant international treaties signed and ratified by the issuer's home country;
- entities listed under European and US sanctions regimes, including individuals or organisations subject to asset freezes or activity bans, as well as entities incorporated in countries that are subject to European Union and US arms embargoes or restrictive measures related to Defence and Security, in alignment with Euronext's AML and Sanctions Policy;
- projects or activities that are not compliant with international humanitarian law, including those that may contribute to serious violations of the laws of armed conflict, or that raise substantiated ethical concerns, particularly regarding indiscriminate effects, disproportionate harm to civilians or potential misuse of the financed technology;
- activities that materially conflict with the European Union's strategic interests, including the indirect reinforcement of non-European military capabilities or the transfer of sensitive technologies to jurisdictions outside the European Union and its associated countries, unless explicitly authorised under European or national regulations; and
- projects or activities that are suspected to be associated with money laundering or terrorist financing.

"Dual-Use" technologies refer to products, components, materials, software and know-how that can be used for both civilian and military purposes. These technologies may be originally designed for civil applications but are also capable of being adapted, integrated or repurposed for defence, security or intelligence uses – either directly or as part of broader systems. Dual-use domains include, but are not limited to, advanced electronics, quantum technologies, space systems, artificial intelligence, autonomous systems, high-performance computing, cyber technologies, semiconductors, biotechnology, advanced manufacturing and materials science. Their strategic relevance lies in their potential to enhance both national and European security and economic competitiveness. As such, dual-use technologies are often subject to export/import control regimes and regulatory oversight, in line with international obligations (including the Wassenaar Arrangement and relevant European Union regulations), to prevent the misuse or proliferation of sensitive capabilities. Within the framework of this label, dual-use technologies are considered eligible only when there is a demonstrable and intentional link between their development or deployment and European Defence and Security objectives. This may include, but is not restricted to, their

integration into defence-related systems, partnerships with defence institutions or contracts with military or security end-users.