

EUROPEAN DEFENCE BONDS

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European Defence Bonds: a new category of thematic bonds serving European sovereignty

The European capital markets are undergoing a significant evolution with the emergence of **European Defence Bonds**, financial instruments specifically designed to support the financing of the defence, security and resilience sector across the continent. In a geopolitical context marked by increasing needs for defence capabilities, this new category of thematic bonds represents a new strategic financing tool to support European autonomy.

The emergence of European Defence Bonds reflects a change in the investment paradigm in the new geopolitical context. While ESG (Environmental, Social, Governance) criteria have long dominated the concerns of ethical and responsible investors, the security imperatives are now reshaping this hierarchy.

Key Pillars of the European Defence Bond Framework

European Defence Bonds are characterised by a "**use of proceeds**" approach: the funds raised are allocated to eligible defence and security projects. There are several key pillars: the definition of the eligible defence projects criteria, the definition of exclusion criteria, the process for evaluation and selection of eligible investment projects, the management of proceeds, regular reporting, including allocation reports and impact/outcome reports, and audit and review.

The new instruments stand out due to the flexibility of their legal framework: there are currently no long-established market standards, no applicable ICMA criteria and no obligatory regulatory regime under national or EU law, which define the characteristics of such instruments, thus offering a degree of flexibility to issuers.

While the features of European Defence Bonds are inspired by the methodologies used for green bonds and social bonds in their "use of proceeds" approach, there are significant differences. Investment in defence, resilience and security projects does not clearly fall within either "Green" or "Social" categories and with a view to ensuring transparency for investors it was considered that a distinct category of "defence bonds" would avoid any concern that investors would be confused or misled. This evolution echoes the "covid response bonds" which, in response to the health emergency, enabled urgent needs to be financed using an *ad hoc* framework initially outside traditional ESG frameworks.

Unlike green bonds, European Defence Bonds issued to date do not require a second party opinion and may, but do not necessarily, impose a requirement for an external audit, on how the proceeds have in fact been used. This reflects both the sensitive and confidential nature of national defence and the level of investor confidence in the quality and integrity of the institutions issuing these bonds.

Market in practice: first operations

In July 2025, Bpifrance established its European Defence Bond Framework and the integration of this category into its EMTN (Euro Medium Term Note) programme via a supplement, which qualifies for the Euronext label. This initiative permits Bpifrance to issue bonds under its EMTN programme which benefit from the "European Defence Bond" Euronext label.

As part of its European Defence Bond Framework, Bpifrance plans to finance or refinance, through the net proceeds of its bond issues, a wide range of strategic projects for European sovereignty and security. The funds are mainly allocated in the form of loans (in particular loans to small and medium-sized enterprises, export loans, corporate or project loans) to French or European companies active in the defence sector, whether they are SMEs, mid-cap companies or members of the defence industrial and technological base (BITD). Also eligible are Bpifrance's direct expenses to help companies in the defence sector in terms of cybersecurity, as well as funding to companies that are members of sectoral associations such as GICAT¹, GIFAS² or GICAN³. The financed projects cover a very wide spectrum: innovation, R&D, industrialisation, export, modernisation, cybersecurity, value chain support and the development of skills and jobs in the defence sector.

Bpifrance applies strict exclusion criteria (notably non-conventional weapons – including nuclear, chemical or biological – and certain fossil fuel related activities, etc.). Bpifrance applies rigorous project evaluation and selection processes, according to its own risk management policies and respect of international standards. The funds are managed using a "bond by bond" approach, with precise monitoring of the allocation of proceeds to eligible projects, including its societal responsibility and strategic objectives.

In terms of transparency, Bpifrance undertakes to publish an annual allocation report on its website detailing the distribution of funds by project category, sector, maturity, loan size, region, etc. An outcome/impact report completes this system, highlighting indicators such as the number of jobs supported, the number of beneficiary SMEs, the patents filed, and the typology of activities financed (land, sea, air, cyber, space, etc.). These reports are subject to post-issuance internal control by the Bpifrance Permanent Control Department to ensure the compliance of financed projects with the defined framework.

On 28 August 2025, Groupe BPCE inaugurated this market by becoming the first European financial institution to issue European Defence Bonds, for an amount of €750 million. The transaction, structured by Natixis CIB as a standalone issuance, generated strong interest, with an oversubscription of €2.8 billion. The funds raised are used to finance the whole value chain of industrial and technological stakeholders working in defence and security, and whilst there is no second opinion, the BPCE European Defence Bond Framework does provide for an external review regarding the use of proceeds.

¹ French Land and Air-Land Defence and Security Industries Consortium (Groupement des Industries françaises de Défense et de Sécurité terrestres et aéroterrestres) (land and air-land industry).

² GIFAS: French Aerospace Industries Consortium (Groupement des Industries françaises Aéronautiques et Spatiales) (aeronautics and space industry).

³ GICAN: Construction and Naval Activities Industries Consortium (Groupement des Industries de Construction et Activités Navales) (naval and maritime industry).

On 12 November 2025, Bpifrance launched its first European Defence Bond issuance for an amount of €1 billion, maturing on 25 November 2030. The inaugural transaction under its European Defence Bond Framework, which qualified for the Euronext European Defence Bond Label, received strong support from investors, with a final order book exceeding €3.8 billion.

Such success reflects investors' appetite for these thematic investments related to financing Europe's security challenges and confirms the potential for a new rapidly expanding market segment.

The Grand Duchy of Luxembourg published its Defence Bond Framework on 6 October 2025 and announced its inaugural issuance of sovereign defence bonds in January 2026. For physical persons resident in Luxembourg, interest which is received on these bonds is exempt from domestic income tax. The Defence Bond Framework incorporates key pillars closely mirroring those used by both Bpifrance and BPCE.

The Euronext European Defence Bond Label

To provide a market framework for and promote this new instrument, Euronext introduced the "*Euronext European Defence Bond label*", as a voluntary, market-driven framework which provides a clear and harmonised identification of bond issues dedicated to financing the European defence and security sector. This label, which is available for issues on any of the Euronext markets (namely Amsterdam, Brussels, Dublin, Lisbon, Milan, Oslo and Paris), has several objectives:

- to establish a common basis for the classification of "European defence" bonds,
- to increase transparency vis-à-vis investors,
- to support the financing of European defence, resilience and strategic autonomy, and
- to create a dedicated market segment to facilitate and optimise placement.

The Euronext label is part of a more global movement – we note that Nasdaq recently presented its own benchmark, the "Defense, Resilience and Infrastructure Bond Criteria," which has similar objectives and is based on a "use-of-proceeds" methodology.

Key Points

- The strategic repositioning of thematic bonds under geopolitical pressure
- Reconciling defence financing with investor transparency and accountability expectations
- The emergence of defence financing as a tool for industrial policy
- The role of financial institutions, sovereign and quasi-sovereign issuers in market-building

Eligibility criteria of the Euronext Label

The eligibility criteria are precisely defined and include: (i) criteria applying to issuers (non-financial companies, sovereigns, financial institutions), (ii) criteria applying to the instruments (all types of debt instruments), and (iii) criteria applying to the fund allocations (at least 85% of the funds must be allocated to European defence and security activities). The criteria also state that certain forms of investment are excluded from being eligible for the label such as investment in prohibited categories of weapons, financing entities subject to sanctions, and activities in conflict with the EU's strategic interests.

It is important to note that the Euronext label is not exclusively aimed at French issuers. Any company, financial institution or sovereign entity established in the European Union, the European Economic Area, or in a country that has entered into a security or defence partnership with the European Union (such as the United Kingdom, Switzerland, Norway or Ukraine), can structure and list its bonds on a Euronext market and thus benefit from the Euronext "European Defence Bond" label.

A second party opinion is not required. Third party audit of use of proceeds is not required but may be included.

Procedure to obtain the Euronext label

The review by Euronext is limited to the formal verification of the completeness of the issuer's self-declaration form, without constituting a certification or due diligence validation of the information provided.

The Euronext label is awarded based on a standardised self-declaration provided by Euronext, which the issuer must complete and sign at the time of admission of the bonds to listing to confirm compliance with the label's criteria and the consistency of the allocation of funds with its strategic objectives.

- If the issuer has a Defence Framework detailing its allocation and governance policies, a single fixed-date annual declaration covering all issues under the issuer's programme using the framework is sufficient.
- In the absence of a Defence Framework, the issuer must complete a self-declaration for each labelled instrument at the time of its issuance and then renew it annually for as long as such instruments are outstanding.

This procedure ensures ongoing compliance, with any omission likely to result in suspension or withdrawal of the label at Euronext's discretion.

Euronext reserves the right, following due diligence, to refuse the award of its label if the characteristics of a bond issue are not deemed satisfactory.

The issuer must include a specific disclaimer in the prospectus and related communications, specifying the limited nature of the review carried out by Euronext.

Outlook and future perspectives

The rise of European Defence Bonds is redefining the traditional contours of ethical finance and thematic bonds. This new segment permits financial stakeholders to integrate security and sovereignty issues into their responsible investment approach, thus broadening the scope of investment criteria beyond purely environmental or social considerations. In this respect, Stéphane Boujnah, Chief Executive Officer of Euronext, points out that "the ESG of tomorrow is energy, security and geostrategy", raising the question of the evolution of responsible investment criteria in the face of new geopolitical challenges.

These new instruments, which have a strong strategic dimension, could lead to the creation of other specific labels or standards adapted to the new European priorities. It also paves the way for other innovative instruments, such as Covered Bonds (with collateral for loans to the European defence sector), securitisation or synthetic securitisation (where the underlying exposures are loans to the defence sector). These solutions could boost the sector's financing capacity while diversifying the tools available to originators and investors.

For European Defence Bonds to become a real lever to finance European sovereignty, it will be necessary to strike a balance between regulatory flexibility, transparency, legal certainty and standardisation (e.g. by the potential development in due course of ICMA methodology) – essential conditions for the long-term support of investors and the innovative development of a structured, mature market capable of supporting European strategic ambitions. The use by Luxembourg of the tax exemption for domestic investors in the sovereign defence bonds may pave the way for further tax or regulatory incentives for investment in these instruments.



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