

Increasing Transparency for Defense Funding

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The Nasdaq Defense, Resilience and Infrastructure Bond Criteria (“NDRI”) acts as additional listing criteria for bonds that seek admission to trading on a designated market segment on Nasdaq’s European Bond Markets. The Designated Markets provide investors with increased transparency and granularity to ensure that capital can be deployed efficiently.

While exclusion policies concerning defense and ESG have become more lenient since the Russian invasion of Ukraine, there are calls for clearer mandates to invest in building the EU Member States’ defense capabilities moving forward. To unlock the full potential of private capital markets, the prevailing taboos among European investors must and should be addressed. Additionally, there is a need to shift public opinion regarding how investments in the defense sector should be viewed through a sustainability lens.

However, there may still be underlying obstacles for investments in certain technologies amongst asset owners. Therefore, the key objective of the NDRI and the Designated Markets is to provide investors with the data necessary to navigate the defense industry and to identify investment opportunities they are able to support. The objective is thus to ensure that no capital is held back as a result of uncertainty or misconceptions about investment opportunities.

The criteria encompass a wide range of eligible project categories, ranging from weapons and ammunition to investments in infrastructure and civil resilience.

Lastly, the NDRI builds on internationally adopted market conventions for sustainable bonds, which has supported the markets’ growth throughout the last decade.



Roland Chai

President of Nasdaq European Markets

The Defense, Resilience and Infrastructure Bond Criteria have four core components that issuers must undertake to follow as part of the listing process:

1. Use of Proceeds

The use of proceeds must be allocated to projects or assets that deliver clear benefits to the defense, resilience or infrastructure of EU or NATO member states, as well as non-member states formally participating in EU or NATO's frameworks of cooperation.

Examples of eligible projects and project categories include:"

- Aerospace
- Combat Equipment¹
- Cybersecurity
- Dual-use technologies²
- Infrastructure
- Programs supporting civil resilience
- Weapons and Ammunition

2. Transparency

Issuers must be transparent not only in which projects can be financed but also regarding the process of project selection and evaluation. In effect, issuers should transparently describe why the financed projects have been chosen and how their internal criteria for project selection ensure that investments support their eligible project categories. Furthermore, the issuer must set up adequate routines and systems to make sure that the proceeds are allocated to the intended projects.

The Eligible Project Categories as well as the issuers' process for selection and evaluation and systems and methods established for the purpose of ensuring that the capital is allocated to its eligible project categories must be described in a Framework or Fact Sheet. The Framework or Fact Sheet must be published on the issuer's website.

Lastly, the issuer is encouraged to consider the objective of the NDRI and ensure that it provides investors with sufficient information to ascertain whether the eligible investments meet their investment policies.

¹ Combat equipment refers to technologies and products, other than weapons and ammunition, that are developed for combat purposes.

² Items produced for civilian use that may also be used in the production of combat equipment or for military purposes.

In summary, the Framework or Fact Sheet must contain:

- a) A definition of eligible project categories and a description of their contribution to the EU or Nato Member states' defense, resilience or infrastructure,
- b) A description of the issuers process for selection and evaluation
- c) Information concerning the issuers' routines and systems concerning the management of proceeds.
- d) A description of how the issuer will report on its use of proceeds.
- e) A clear statement describing whether the bonds may finance lethal technologies, and if they may, a statement certifying that such technologies cannot be in violation of international treaties or agreements entered by countries in which the issuer, its subsidiaries or affiliates operate, or by countries to which exports are to be made.

3. Reporting

A key element of the NDRI is the reporting of the use of proceeds. Issuers are required to make annual reports on a bond or bond program level publicly available until full allocation. Nasdaq does not set detailed requirements for the contents of the annual report. However, the issuer must describe how the proceeds have been allocated.

Whilst it is required to provide an annual report on the Use of Proceeds, Nasdaq also recommends issuers to report on the estimated or actual impact that has been achieved by its investments”

Recommendations

It is further recommended to clearly state where financed products or services are to be produced and to which countries' products may be exported. Furthermore, if the issuer produces combat equipment or weapons systems, it is recommended to transparently describe the share of its revenues stemming from such products. Lastly, issuers are recommended to clearly describe any existing policies relating to responsible sales and export controls.

Lastly, Nasdaq recommends, but does not require, issuers to seek and publish an external and independent opinion on their Framework. It is further recommended that the external opinion comments on the issuer's contribution to defense, resilience or infrastructure as well as the framework's adherence to the NDRI.

3 If Nasdaq becomes aware that an issuer has failed to meet its reporting obligations. The issuer will be granted 2 months to produce and publish such a report on its website. If no report has been published within 2 months, the bond will be transferred to the corresponding segment for conventional bonds.

Exclusion

Nasdaq reserves the right to exclude or remove bonds from a designated market segment if they fail to meet the above outlined criteria. A bond can also be removed from the segment if:

- a) It becomes incompliant with the use of proceed criteria
- b) It does not meet its reporting obligations³
- c) It is involved in a controversy directly relating to the project / activities financed by the bond.

Furthermore, the NDRI does not allow bonds that are in violation of international treaties or support the production or proliferation of armament that have been prohibited in such treaties. Nasdaq will not monitor or verify this criterion. However, the issuer must certify that they will not be financing such investments as part of their Framework or Fact Sheet.

Questions?

Please reach out to our listings team:

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