Managing Compliance in Defence and Military Goods Financing

in partnership with
the Centre for Economic Security

July 2025

itfa.org

EXECUTIVE SUMMARY

This Whitepaper tackles compliance challenges in financing defence and military goods amid rising global tensions. Substantial public funds and credit support are now being made available representing a significant opportunity for lenders. However, these efforts, to be successful, require a shift in approaches to, and perceptions of, what constitutes a compliance risk if the much-needed increase in defence spending is to materialise as it must.

Key hurdles include sanctions, export controls, KYC/AML risks (e.g., illicit arms trading), reputational concerns, FATF guidance, and ESG criteria like the EU's SFDR. These complicate trade and working capital finance, at a time when defence spending should be reframed as a societal necessity with potential alignment to UN SDG 16. Proposed solutions include using APIs and AI for screening, a global "Compliance Passport" for due diligence, and harmonizing bank policies. ESG should be expanded to include "Security" with transparent reporting and industry collaboration.

FATF guidance on proliferation financing is unlikely to impede new markets, while a public consensus shift, driven by security threats, re-evaluates military spending ethics. The Appendix notes evolving policies reflecting growing acceptance of defence as essential.

In conclusion, the paper urges financial institutions to adapt policies, leveraging these solutions to build a resilient financial ecosystem for defence spending, aligning with 2025's geopolitical realities.

Introduction

This paper has been prepared by ITFA with its partner, the Centre for Economic Security to deal with a fundamental issue that has plagued the financing of defence and military goods for some time: Compliance, in both the narrow and the broad sense including concerns over ESG requirements.

War on Europe's doorstep, in the Middle East and the potential for conflict in the Taiwan Strait mean present security challenges to NATO members and their partners. Alongside this, the recent commitment at the NATO summit to increase defence spending to 5% of GDP in line with US expectations, have caused allies to re-examine their expenditure on defence and security and how it might be financed.

The need for increased military spending has arguably existed for some time but the tensions mentioned above have given rise to new sources of finance and support including:

- The NATO commitment to military spending of 5% of GDP of member states[1]
- The ReArm Europe Plan pledging €800 billion through a variety of measures including a €150 billion capital markets instrument[2]
- Commitments made by the UK in the recent Strategic Defence Review[3]
- Increased funds of at least £3 billion made available to UK Export Finance (UKEF) for defence exports[4] alongside increased capital allocation to £80bn from $60bn to cater for defence and security business.
- Germany's commitment to releasing its debt-brake for defence and security allowing it to borrow nearly €400bn directly for defence and nearly double its defence budget by 2029.

Yet none of the promises of budget allocations so far address the very profound need to "crowd in" commercial banks and investors in order to create a financial ecosystem that allows the supply-side in defence and security to scale at the level that the additional funds require. Falling foul of compliance rules is a real fear for these funders.

The purpose of this paper is to show that compliance need not be the insurmountable obstacle that it is often perceived to be in the military context. Indeed, as we argue, such spending should be regarded as fulfilling an important social function with an unprecedented societal return. After all, what is more important than the preservation of society itself in the form that we enjoy it, the freedoms we enjoy and the values we espouse? As the Chief Risk Officer of Deutsche Bank stated at a conference on 2nd July on a related subject: "I don't want on our tombstone: they didn't have tanks but their banking regulation was really fair".

We present solutions to these problems but acknowledge the critical need to engender a shift in public consensus as a report by two British MPs has argued[5]. As the Strategic Defence Review states, "business as usual is no longer an option"; this is a leitmotif across Europe and NATO partners.

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1 NATO - News: NATO concludes historic Summit in The Hague, 25-Jun.-2025

2 ReArm Europe Plan/Readiness 2030

3 Strategic Defence Review 2025 – Making Britain Safer: secure at home, strong abroad

4 UKEF unveils new strategic financing for industrial growth - GOV.UK

5 Rewiring British Defence Financingv2.4

The scale of change needed requires a global project. Allies in the Pacific and elsewhere face similar issues. Because the need for funding is so great, it has to be done on a multilateral basis to create collective financial architectures. Such architectures must be able to support funding for deep tier supply chains through guarantees to cross-border trade and trade finance in security and defence in the first instance and critical national infrastructures over time. The Defence, Security and Resilience Bank (DSRB) would provide such an ecosystem.

Section 1 of this paper sets out the current areas of greatest concern.

Section 2 sets out available and actionable solutions within the grasp of all.

Finally, we close with a call to action.

Current Rules And Practices

Sanctions

Economic sanctions have long been used by governments and multinational organisations to try to alter the strategic decisions of state and nonstate actors that threaten their interests or violate international norms of behaviour.[6] Used as a foreign and security-policy tool, often referred to as Economic Statecraft, economic sanctions are the withdrawal of customary trade and financial relations targeting specific countries, entities or persons. Comprehensive sanctions prohibit commercial activity over an entire country, for example, the U.S embargo of Cuba, or they may be targeted, blocking transactions by and with particular industries, businesses, groups, or individuals. They are among the toughest measures nations can take, short of going to war.

In addition to financial sanctions, governments or multinational bodies may use trade sanctions. These come in various forms, each serving different strategic purposes. An embargo is the most severe type of trade sanction. It involves a comprehensive ban on trade with a particular country, covering most or all imports and exports. Embargoes are often used to isolate a nation both economically and politically. These prevent countries from engaging in any meaningful economic relations with the rest of the world, severely impacting their economies.

Export restrictions are another common form of trade sanctions, which specifically limit the export of certain goods and technologies to a targeted country. These sanctions typically focus on critical industries such as energy, telecommunications, defence, and technology. For example, the export of semiconductors and telecommunications technology to Russia was restricted in 2022 to prevent the country from accessing advanced technologies that could support its military operations.

Import restrictions involve banning or limiting the importation of goods from a targeted country. These sanctions aim to disrupt a nation's ability to generate revenue from its exports, which can have far-reaching effects on its economy. An example of this is the EU and U.S. sanctions on Russian oil imports, which were designed to reduce the revenue Russia generated from its energy sector following its aggression in Ukraine. Import restrictions can also be more subtle, involving higher tariffs or quotas rather than outright bans.

Export Control Regulations

The concept of export controls has been around for centuries, but modern export control regulations emerged during and after World War II, driven by the need to control the flow of strategic materials and technology. The Cold War further heightened the importance of these controls, as countries sought to prevent the transfer of military and dual-use technologies to adversaries. Today, export controls are a fundamental aspect of global trade policy, reflecting the geopolitical realities and security concerns of the modern world. Export controls impose restrictions based on the end user and end use of the exported items. Exporters must conduct due diligence to ensure that their products are not destined for prohibited or used for illicit purposes. In the UK, these requirements are managed by the Export Control Joint Unit (ECJU).

6 What Are Economic Sanctions? | Council on Foreign Relations

KYC/AML

Know-your-customer and anti-money laundering regulations are designed to identify and freeze funds derived from illicit activities, such as illicit arms trading, where these are routed through seemingly legitimate channels. Banks must be vigilant for red flags such as complex ownership structures, the use of shell companies, unexplained rapid turnover of professional advisors, or transactions that lack clear commercial rationale. The involvement of Politically Exposed Persons (PEPs) in defence contracts also heightens money laundering risk, as these individuals may leverage their influence for personal gain. The prevalence of cross-border transactions in the defence industry and the potential for dual-use goods (items with both civilian and military applications) which could be misused by for example illegal militias of terrorist organisations, further complicate efforts to trace funds and verify their legitimate purpose.

Bribery and corruption are also seen as pervasive risks within the defence sector. This can manifest itself as direct bribes to government officials or intermediaries, inflated invoices, or the manipulation of procurement processes. Banks providing financing must conduct thorough due diligence on all parties involved in a transaction, including third-party intermediaries and agents, to identify any red flags indicating potential corrupt practices. The lack of transparency in some defence budgets and the possibility of off-budget spending further exacerbate these risks.

Reputational Risk and Client Selection

Banks have historically often been reluctant to lend to companies in the defence space for fear of reputational risk including adverse coverage in media and negative reactions from clients and prospects. This has led to an extension of genuine defensible actions to exclude bad actors involved in illegal weapons proliferation and terrorist activities to large, listed defence contractors and militaries themselves.

An additional factor is that multinational banks are often worried about aligning themselves with specific governments or political agendas and hence chose not to support large arms manufacturers.

Finally, spending on defence is opposed by a number of groups and lines of thought which see such spending as diverting from expenditure on social programmes or simply as breaching ethical norms.

FATF Guidance

The Financial Action Taskforce (FATF) describes itself as a global money laundering and terrorist financing watchdog which sets international standards to help manage these risks. While not specifically a bank regulator, FATF has published specific guidance on proliferation financing, addressing the risk of military technology, weapons and parts ending up in the hands of regimes hostile to NATO.

The guidance is made up of seven recommendations requiring countries and private sector entities to identify, assess, understand and mitigate their proliferation financing risk. The document provides guidelines on how to conduct a proliferation financing risk assessment. FATF advises that *'apart from using other means, proliferation support networks use the international financial system to carry out their activities, often acting through a global network of indirectly connected illicit intermediaries, front companies and shell companies to hide their beneficial ownership*[7].

7 Guidance on Proliferation Financing Risk Assessment and Mitigation

ESG

Burgeoning legislation, especially in Europe, around Sustainability: environmental, social and governance criteria that ensures a precautionary principle of Sustainable Finance Disclosure Regulation (SFDR) which laid out 18 Principal Adverse Impacts against which any transaction or financial deal should be judged. Similarly, the International Financial Reporting Standard frameworks have tightened and become more streamlined, meaning that global regulators have been able to be more demanding in terms of what is reported by businesses and financial services companies alike.

ESG is often measured by reference to the UN Sustainable Development Goals[8]. UN SDG 16 promotes peaceful and inclusive societies. Whilst military spending is not a widely recognised way of promoting peace, it is argued below that spending on defence can achieve such a goal when carried out in the correct context.

The result of these increased compliance rules is that lenders have no option but to accept these restrictions. Banks are effectively the unwitting "foot-soldiers" in this conflict.[9] But that role needs to be re-thought in the new security climate, not least because a new balance must now be found between what were traditional Environment, Social and Governance issues and the need to encompass a much broader "S": Security, Societal and Governance.

8 THE 17 GOALS | Sustainable Development

9 Harding, R (2025, forthcoming): "The World at Economic War; How to build security in a weaponized global economy" London Publishing Partners, September 2025

Suggested Solutions

Technology

Advances in technology can assist financial institutions significantly in decisions specific to trade finance and lending in defence/military. This includes a step-change in counterparty risk identification and analysis. The requirement to understand who a bank's client is dealing with (know-your-customer's-customer and know-your-customer's-supplier) has long been a challenge in this industry. The ability using AI and open source intelligence to check KYCC and KYCS at a transaction level for potential shell companies and ultimate beneficial owners with sanctions exposure is now a reality. AI can score counterparties from a financial crime perspective with full explainability based only on banks' proprietary data. These practices have not yet been widely adopted by financial institutions, and as result detection of potential unfavorable military exposure remains at the "lowest common denominator" rather than a true risk-based approach.

In addition, as set out in more detail in a recent ITFA paper “The conquest of military dual-use goods detection in trade finance”, technology and innovation can be leveraged to efficiently manage compliance screening. AI has potential that is only beginning to be exploited. These tools allow, for example, the ingestion of data from both public and private sources. Particularly relevant in this context are United States government Export Control Classification Number (ECCN)[10] and chemical standard datasets.[11]

KYC/AML

This paper argues for consideration of a wholesale change in how financial institutions based in NATO member countries treat clients and transactions specific to defence and military procurement.

Where national security considerations are engaged, internal bank policy should allow for financing and procurement in line with government expectations, both public and where government contracts have been awarded to private contractors. These entities may still be rated high or fall into a special category money-laundering risk as per internal guidance but should not be excluded from banking services by policy.

When it comes to the support for conventional weapons procurement, existing approved clients of financial institutions should be supported from a policy perspective, subject to the usual transaction-level monitoring in a mature financial crime compliance framework (and inclusive of FATF recommendations on anti-proliferation financing as separately detailed).

Financing of controversial weapons procurement should remain on an exceptional basis only, as per policy (nuclear, where aligned with national interests for example)

In the paper on rewiring British defence financing referred to in the introduction, it is suggested that the UK Government introduce a “Compliance Passport” which would certify that the user had successfully passed pre-approved government due-diligence checks on which financers could rely.

The authors of this paper strongly endorse such an approach which could be rolled out to all interested countries.

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10 Non-exhaustive Supplement to the U.S. Commerce Control List. Available at: https://www.bis.doc.gov/index.php/documents/regulations-docs/2329-commerce-control-list-index-3/file

11 Delineation of the three schedules for toxic chemicals and precursors defined by the Organisation for the Prohibition of Chemical Weapons (OPCW). Available at: https://www.opcw.org/chemical-weapons-convention/annexes/annex-chemicals/annex-chemicals

Sanctions

The effectiveness of sanctions against Russia since the February 2022 invasion of Ukraine has been much debated. While exclusion of many Russian institutions from the international financial system can be portrayed as working as intended, the circumvention of those efforts is clear: Russia has managed to procure technology and weapons parts from private companies in NATO member countries via intermediaries in third party countries on a large scale and multiple countries not subject to sweeping sanctions (US, UK, EU) have continued to trade with Russia at high volumes in currencies other than the US dollar – including China, India, Turkey, South Africa and others.

This paper recommends a recognition that the current sanctions regime contains flaws exploited by Russia and others; the promotion of a more technology-driven approach to risk detection (see Technology section); and a scaling up of secondary sanctions against third parties.

Harmonising lending policies

Polices across banks and other lenders relating to defence spending show a considerable degree of variation. To some extent this is natural as risk appetites vary even in relation to plain vanilla goods and are informed by factors such as client selection and market knowledge. Fragmented and localised perceptions of risk, including reputational, are now changing as an understanding of the new security climate and the resulting financial opportunities takes hold across entire geographies. In larger markets such as the US, financial institutions broadly have financed such spending for many years. Changes are also taking place in the EU e.g. Belfius and UBS Asset Management, have lifted restrictions on financing conventional weapons producers. Other banks are increasing the size of their stakes in this market e.g. BNP Paribas.

The appendix to this paper sets out current policies and approaches to defence spending across several banks, The information is taken from public sources and is subject to change.

The changes in policy are indicated and are noteworthy illustrating the growing perception that defence spending is an important and profitable activity.

ESG

Banks should not see ESG requirements as an obstacle to financing defence businesses. In fact, by taking the approach that there is no sustainability without security, there is scope for broadening the definition of ESG to Environmental, Security and Governance, making it possible to look at the societal returns more broadly from transactions and investments that might accrue from defence and security. These new approaches need to be pitched alongside broader macroeconomic considerations at nation state level to formulate policies that support growth through economic security. Banks have a critical role to play in this.

Some regulators have not been slow in understanding the new landscape. The Prudential Regulatory Authority in the UK has made a clear statement that there are no ESG reasons why defence and security cannot be funded by financial institutions.[12] In addition, the Principal Adverse Indicators and narrower environmental reporting standards do not explicitly exclude defence and security. The job of a regulator is to promote financial security and there is no specific systemic risk from funding defence and security. More than that, the Principle Adverse Indicators state only that transactions that relate to "controversial weapons" (in other words those banned under international law) are forbidden. [13]

12 https://www.responsible-investor.com/financial-conduct-authority-hits-back-on-defence-and-esg-regulations/

13 https://www.deloitte.com/nl/en/services/legal/perspectives/pai-disclosures-under-the-sfdr.html

In addition, it is suggested that lenders:

- engage investors and NGOs: communicate with stakeholders to explain how financing decisions balance ESG goals with societal needs like national security;
- produce transparent reporting: publish detailed ESG reports outlining how defence financing aligns with sustainability goals. This includes disclosing risk assessments, mitigation strategies, and the proportion of defence-related lending in the portfolio; and
- collaborate with industry: work with defence firms to improve their ESG performance, such as adopting circular economy practices (e.g., recycling materials in manufacturing) or ensuring compliance with anti-corruption standards.

This can be a win-win situation: some European banks, like ING, have restricted financing for defence firms involved in controversial weapons while supporting those with strong ESG profiles, aligning with EU regulations. In the US, banks like JPMorgan Chase finance defence contractors like Lockheed Martin, emphasizing governance and innovation (e.g., cybersecurity solutions) to meet ESG criteria, while leveraging national security exemptions in ESG frameworks.

FATF Guidance

FATF guidance on proliferation financing is critical to stop the flow of sensitive technology and weapons to states and state-sponsored actors with openly malicious ambitions towards NATO members. Financial institutions should adapt their risk appetite and transaction level monitoring to focus specifically on goods descriptions and controversial weapons types.

From a corporate lending perspective, national and conventional weapons manufacturers should be excluded; and at the transaction level, focus should be on goods descriptions to identify potential escalation and action.

Consensus Shift

Many of the restrictions on financing defence spending arise from a perception that there is a risk of reputational damage if engaged in such activities.

The dangers that were referred to in the Introduction are leading to a new realisation amongst the publics of many countries that governments must do more to provide for security and, possibly, even war. The age-old conundrum that to avoid war, one must prepare for it and ensure that deterrence is effective is being re-examined in a post-Cold War environment.

As far back as St. Augustine in the 4th century AD, it has been argued that sovereigns may wage just war if, amongst other things and in modern terms, it is in self -defence, subject to democratic oversight and legal.

It is the view of the authors of this paper that financial institutions need to re-assess what may have become outmoded ethical views.

Conclusion and Recommendations

The preceding sections of this paper set out the current areas of difficulty in this area and illustrate how these can be solved given the right will and energy. A changed social attitude towards the ethics of military spending will underpin and energise the involvement of financial institutions but they cannot wait, and must lead, that change.

Compliance, properly done, must not stand in the way of financing increased military spending.

The institutions which have authored this paper call for banks, insurers and other financial institutions to not only seize the opportunities available to them but to re-assess and change their internal processes and policies to allow military spending to achieve the levels needed to deter external threats and avoid greater conflict.

Accordingly, the authors of this paper recommend that:

- lenders engage with ITFA and the Centre for Economic Security to assess the compliance challenges of investing in defence and security and broader Critical National Infrastructures, including Dual Use Goods;
- lenders engage directly with governments on the compliance requirements of trade, supply chain and working capital funding for sovereign and collective defence and security; and
- lenders support the establishment of a Defence, Security and Resilience Bank to provide guarantees that ease the challenges of cross-border trade and supply chain finance.

Appendix

US, European & Asian bank defence financing policies

Key: 🟢 No known Restrictions | 🟡 Some Aspects Restricted | 🔴 Restricted

Bank	Defence Policy Document	Permits Defence Company/ Project Financing?	Permits Conventional Weapon Company/ Project Financing?**	Permits Controversial Weapon Company/ Project Financing?***	Comments
Barclays	Barclays Defence Policy	🟢	🟢	🔴	In 2024, the bank stated that defence firms 'are an important contributor to our security in a time of increasing uncertainty … & are as essential to our defence as the armed forces'.
BBVA	BBVA Defence Policy	🟢	🟢	🔴	
Belfius	Belfius Defence Policy	🟢	🔴 → 🟢	🔴 → 🟡	The bank removed its conventional weapons exclusion in 2025 (for NATO HQ firms) & also announced that nuclear weapons are no longer off limit if a counterparty is a NATO state.
BNP Paribas	BNP Paribas Defence Policy	🟢	🟢	🔴	After allocating $12bn to defence in 2024, the bank announced it will extend financing. Bank outlines its heavy focus on financing companies & assets in/for NATO countries.
Commerzbank	Commerzbank Defence Policy	🟢	🟢	🔴	
Crédit Agricole	Credit Agricole Defence Policy	🟢	🟢	🔴	Financing allocation for defence, with the exclusions of those involved in controversial weapons, has been longstanding.
Citi	Citi Defence Policy	🟢	🟢	🔴	No exclusion on conventional weapons but will escalation for senior consultation if asked to finance the production/sale of certain things (e.g. munitions).

Danske Bank	Danske Bank Defence	🟢	🟢	🔴	
Deutsche Bank	Deutsche Bank Defence Policy	🟢	🟢	🔴	
European Investment Bank	EIB Defence Policy	🔴 →			EIB removed a requirement for >50% of a firm/project's revenue to be from non-defence activities if it is dual-use (dual use means it must have non-defence capabilities), and then lifted its limit on defence financing in March 2025.
GROUPE BPCE	Groupe BCPE Defence Policy	🟢	🟢	🔴	Groupe BPCE made the defence sector one of its priority vectors for bolstering the competitiveness of France's regions and responding to sovereignty issues in 2024.
HSBC	HSBC Defence Policy	🔴	🔴	🔴	HSBC has long held a restricted appetite for the defence sector and prohibits financing for firms/projects involving conventional weapons. Dual use is permitted, with considerations for proportional revenue from the business mix considered in its defence-averse approach.
ING	ING Defence Policy	🟢	🟢	🔴	Explicitly states that it supports and meets funding needs of the defence industry – provided they are aimed at supporting and increasing the resilience of Europe.
INTESA SANPAOLO	Intesa Sanpaolo Defence Policy	🟢	🟢	🔴	Limits financing to transactions only involving the production and/or marketing of armament materials to countries belonging to the European Union and/or NATO.

LLOYDS BANK	Lloyds Defence Policy	🟢	🟢	🟡	Offers financing for nuclear weapons programmes if they are for US, UK or French programmes.
MIZUHO	Mizuho Defence Policy	🟢	🟡	🔴	No holistic prohibition of conventional weapon financing. The bank prohibits the financing & investment in those that manufacture, sell or distribute conventional weapons and arms unless the purpose is for the legitimate national security reasons or UN peacekeeping operations (Mizuho may then provide financing or investment based on careful consideration).
MUFG	MUFG Defence Policy	🟢	🟢	🔴	No clear exclusion of conventional weapons.
NatWest	Natwest Defence Policy	🟢	🟢	🟡	Finances firms involved in the manufacture, sale, trade, servicing or stockpiling of nuclear weapons in jurisdictions in NATO countries.
Santander	Santander Defence Policy	🟢	🟢	🔴	Chairman on March 27th urged authorities to let European lenders use capital buffers to support growth & investments in the defence sector.
SMBC	SMBC EMEA Defence Policy	🟢	🟡	🔴	Based on SMBC's EMEA Division Defence Policy as of October 2023, SMBC uses a tiered approach with (i) permitted activities (e.g. financing for military uniforms), (ii) restricted activities & (iii) prohibited activities (e.g. financing activities involving munitions). Conventional weapon producers can be banked (e.g. if loan for general corp purp.) but support for activities involving munitions is prohibited.

SOCIETE GENERALE	Societe Generale Defence Policy	🟢	🟢	🔴	
UBS	UBS Defence Policy	🟢	🔴 → 🟢	🔴	UBS' asset management permitted investments into firms involved with conventional weapons at the start of April.
UniCredit	UniCredit Defence Policy	🟢	🟢	🔴	

*' two circles indicate a policy has changed. *Dual-use items are goods, software and technology that can be used for both civilian and military applications – as defined by EU. **Conventional weapons are weapons other than weapons of mass destruction – as defined by the UN. ***Weapons regulated by international conventions, including (but not limited to) anti-personnel landmines, cluster munitions/bombs, chemical, biological, and nuclear weapons – as defined by SMBC. Source: SMBC prepared based on bank sustainability financing policies, The Banker, Reuters & Financial Times.*

About ITFA

Founded in 1999, and with nearly 400 members all over the world, the ITFA (www.itfa.org) brings together banks, insurers, fintechs, specialised financial institutions and advisers engaged in originating and distributing trade related risk and finding creative ways to mitigate threats. Expanding from its original focus on the purchase and discounting of simple but robust payment instruments, such as negotiable instruments and letters of credit, ITFA has embraced new instruments, markets and brought in new participants to play a valuable role in trade and supply chain finance. The ITFA acts as a valuable forum for its members to interact and transact business together profitably and safely.

The aim of the ITFA working with, and for, its members, is to:

- facilitate the expansion of trade finance and forfaiting in the emerging markets
- continuously improve governance and best practice and shape rules, laws and documentation that affect its members and the industry
- provide unique opportunities for marketing and networking
- disseminate knowledge and education particularly to younger individuals and new entrants to the market
- co-operate with partner associations across the trade finance spectrum to promote the interests of its members and improve relations with regulators and legislators

About the Centre for Economic Security

The Centre for Economic Security (www.ces-global.net) is a research and convening organisation that dedicates itself to three goals: first, raising awareness and understanding of economic threat, second, to establishing the operational tools to manage that threat and third to enabling policy makers, financial institutions and corporates to anticipate and deal strategically with those threats.

Our vision is to promote strategic economic readiness in a fragmented world. We do this by working with governments, financial institutions and corporates to formulate resilient and effective tools.

International Trade
and Forfaiting Association