

Defence – A Sustainable Investment? A View From The UK's Financial Conduct Authority

Regulatory & Compliance on **March 12, 2025**

On 11 March 2025, the Financial Conduct Authority (the “**FCA**”) published a [statement](#) clarifying that their rules, including with regards to sustainability, do not prevent investment in or financing of defence companies. The FCA confirmed that it is at the discretion of investors or lenders as to whether they provide capital to defence companies.

The UK's Sustainability Disclosure Requirements (“SDR”) introduced in 2023 aim to ensure that information about investments claiming to be sustainable can be trusted and readily understood. The SDR has never explicitly addressed the defence sector in SDR.

However, asset managers commonly apply exclusionary screening of investments related to weapons, typically limited to “controversial weapons” whose production and use have been deemed unacceptable under international conventions and even illegal within certain jurisdictions. Examples of such weapons include cluster munitions, anti-personnel landmines and chemical weapons. The clarity on weaponry exclusions came into sharp focus following the Russian invasion of Ukraine, prompting many to tighten their exclusionary criteria on cluster munitions in particular.

The FCA announcement follows [lobbying](#) from several Members of Parliament seeking clarity on defence investments and FCA sustainability rules. It also follows on from the [statement](#) from the previous government that directly confirmed “investing in good, high-quality, well-run defence companies is compatible with ESG considerations as long-term sustainable investment is about helping all sectors and all companies in the economy succeed”. Whilst the current Prime Minister has committed to increase defence spending recently, so far there is no statement from him or the Chancellor, Rachel Reeves, on their perspective on whether defence investments could be sustainable investments.

We wait to see if other regulators will make similar pronouncements as defence spending, and increases in it, becomes more and more relevant to countries around the world.

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