

# **Broad Debt Pause Clauses and Increased Transparency in Emerging Market Sovereign Bonds**

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## **Frequently Asked Questions**

**December 2025**

**The London  
Coalition**

*\*This FAQ document and related Input Paper, prepared by the Bondholder Working Group of the London Coalition for Sustainable Sovereign Debt, proposes market-based solutions to improve resilience and transparency in emerging market sovereign bonds through the introduction of broad debt pause clauses and enhanced disclosure standards. Please note that this is an input document from the Bondholder Working Group, shared for your engagement and feedback. It has not yet been reviewed or endorsed by the London Coalition Steering Committee and does not represent an official output of the London Coalition, which will come in due time.*

## London Coalition BHWG Broad Debt Pause Clause Proposal<sup>1</sup>

### FAQs - December 2025

#### QUESTIONS ABOUT THE FOCUS OF THE BHWG INITIATIVE

##### Where does this initiative fit within global efforts to improve transparency, liquidity, and default risk for EMDE borrowers?

*The London Coalition’s Bondholder Working Group (BHWG) has been evaluating options to improve borrowing conditions and enhance liquidity for a subset of EMDE borrowers. The working group has focused on developing a contractual, short-term liquidity mechanism, conditional on meeting certain transparency standards, to operationalize the deferral of a limited number of payments. This mechanism enables countries to respond effectively to a range of crises, including those related to climate disasters, conflict, pandemics, and other significant macroeconomic challenges.*

*While this initiative does not seek to address the problems faced by countries with unsustainable debt levels, the working group believes that including broad debt pause clauses in sovereign bond contracts could offer vulnerable borrowers a useful tool for managing risks without raising their cost of capital. Efforts are underway to develop a term sheet to be shared with borrowers and their advisors.*

##### What are the benefits of a liquidity-focused solution for issuers and investors?

*The bondholder working group has proposed allowing borrowers to request a temporary payment deferral under specific conditions, as outlined in a contractually regulated protocol, usually lasting up to one year. During this pause period, countries are expected to allocate their limited fiscal resources towards emergency response measures—rather than servicing external debt—without incurring a credit event. This approach would provide a predictable, quantifiable, and readily available source of liquidity for countries facing significant external shocks at critical moments. However, for the new clauses to deliver material liquidity relief, while also ensuring respect for the priority and sequencing of creditor claims, increased transparency will be crucial.*

*Benefits of this approach include:*

- *Enhanced Sovereign Liquidity. By freeing up essential liquidity during a crisis, countries can allocate their limited revenue toward emergency responses instead of servicing external debt.*
- *Reduced Contagion Risks. Improved liquidity should translate directly into lowered odds of a costly hard default, while also supporting market access over time. The activation of a debt pause is not a default event because the payment deferral is documented in a contractually regulated protocol.*
- *Lower Cost of Capital Over Time. Incorporating enhanced transparency clauses will enhance investors’ ability to accurately assess risks, foster trust in the effectiveness of the debt pause, and establish a more predictable crisis response mechanism. We also believe externalities associated with greater transparency and more proactive engagement with markets can have a credit-positive impact by incentivizing the development of strong public financial management practices. Capable public financial management has a demonstrated empirical relationship with the concept of “state capacity”, and the broader concept of economic development.<sup>2</sup>*

<sup>1</sup> These Frequently Asked Questions (FAQs) have been prepared by the Bondholder Working Group (BHWG), an ad-hoc group of emerging markets bond investors that has been convened under the auspices of the London Coalition for Sustainable Sovereign Debt. The FAQs have been prepared to supplement the proposal entitled “Broad Debt Pause Clauses and Increased Transparency in Emerging Markets Sovereign Bonds” and should be read together (the “Pause Clause Documents”). The Pause Clause Documents are for informational purposes only and do not constitute professional, legal or financial advice. None of the Pause Clause Documents shall form the basis of or be relied on in connection with any contract, commitment, financial, or legal decision whatsoever. No guarantee, warranty, or representation (express or implied) is given as to, and no reliance should be placed on, the application or use of the Pause Clause Documents for any stated purpose and the BHWG does not accept any liability or responsibility in respect of the Information or any views expressed herein.

<sup>2</sup> Jonathan K. Hanson and Rachel Sigman, “Leviathan’s Latent Dimensions: Measuring State Capacity for Comparative Political Research.” *Journal of Politics*, forthcoming. <https://doi.org/10.1086/715066>

- *More Orderly Debt Resolution (When Necessary). In addition to providing much-needed liquidity during a crisis, when needed, due to the severity of the economic shock, the proposal includes updated contract provisions to ensure speed and efficiency in a restructuring scenario.*

**Are Pause Clauses necessary? Countries that face massive shocks beyond their control can always conduct a consent solicitation (as seen in Ukraine in 2022). Bondholders readily agreed to a payment pause in that case.**

Countries cannot simply rely on *ad hoc* consent solicitations. Ukraine's 2022 payment pause, effectuated by consent solicitation, was highly unique and not replicable as a general model. Ukraine benefited from unusually strong pre-crisis relationships with creditors, a high level of investor relations capacity, and exceptional geopolitical circumstances that implicitly pressured bondholders to cooperate. Most sovereigns facing large external shocks lack these advantages and would find it harder to secure the same cooperative response.

In addition, Ukraine's consent solicitation triggered credit ratings downgrades to 'SD' / 'RD' (given the determination that it constituted a distressed debt exchange (DDE)), which is an outcome that most issuers and market participants would prefer to avoid. Indeed, the fear of credit ratings downgrades

A built-in debt pause clause aims to address these limitations precisely. It offers a predictable and transparent framework for temporarily suspending payments without exposing the issuer to the collateral damage of a distressed debt exchange. Rating agencies classified Ukraine's solicitation as a selective default/DDE, which deterred many countries from seeking similar relief during the G20's Debt Service Suspension Initiative (DSSI). Relatedly, Ukraine's consent solicitation, which altered the original terms of its debt, was ruled a "restructuring credit event" by the industry's Derivatives Determinations Committee (DC), thereby triggering CDS payments.

A well-designed contractual pause clause would prevent adverse rating treatment and avoid triggering payments on associated derivative contracts.

Pause clauses also have clear limits. As an example, they generally do not cover maturity extensions. So, in a situation similar to Ukraine's in 2022, a formal consent solicitation would likely still be necessary. These features are not intended to replace a debt restructuring when one is needed. For a broad range of exogenous shocks, though, they provide a solution that's predictable, accessible, and largely free of punitive costs or credit impacts.

<b><u>Approach</u></b>	<b><u>Predictability</u></b>	<b><u>Ratings Impact</u></b>	<b><u>Speed</u></b>	<b><u>Feasibility for All Issuers</u></b>
<b><u>Consent Solicitation (Ukraine)</u></b>	<b><u>Low</u></b>	<b><u>Default</u></b>	<b><u>Slow</u></b>	<b><u>Unlikely</u></b>
<b><u>Contractual Pause Clause</u></b>	<b><u>High</u></b>	<b><u>Minimal/None</u></b>	<b><u>Fast</u></b>	<b><u>Broadly Accessible</u></b>

**How might investors distinguish between a call for a debt pause that is considered a solvency matter vs. one that is intended to address a liquidity crisis? How can investors discourage issuers from triggering a debt pause if the issues are related to solvency?**

Debt pause clauses are meant to address short-term liquidity shocks, not long-term solvency problems, so there is a real risk of misuse if they are triggered in situations of underlying debt unsustainability. A liquidity crisis arises when a fundamentally solvent sovereign temporarily faces challenges in meeting its payments as they fall due, for example, after a natural disaster or a sudden loss of market access, even though its medium-term debt trajectory remains manageable. In a liquidity crisis, a pre-agreed payment pause can bridge a temporary financing gap while the economy recovers. However, activation of a debt pause clause to delay recognition of unsustainable debt can worsen eventual restructuring costs by allowing debt to accumulate and investor uncertainty to grow.

To reduce the risk that pauses merely prolong unsustainable situations, several safeguards can be incorporated into the design of debt pause architecture for sovereign bonds. First, limiting how often and for how long a pause can be used during the life of the bond can ensure it serves as a temporary measure rather than as a rolling standstill or a means to delay restructuring. Second, strong transparency and a requirement for continuous reporting of comprehensive debt data, along with reporting on the use of freed-up resources, can help investors confirm that the pause is supporting recovery rather than hiding structural insolvency. And finally, a declination option is the most crucial protective feature for bondholders. If investors view the crisis primarily as a solvency issue rather than a liquidity problem, they might decline the issuer's request for a pause and consider restructuring the country's debt.

## QUESTIONS CONFLATING A DEBT PAUSE WITH DEFAULT OR RESTRUCTURING

### Will the use of the debt pause be considered a default or a restructuring?

*It is essential to understand that the issuer's activation of a debt pause will not be considered a default event. The primary objective of this initiative is to update bond contracts to include a feature that allows the issuer to delay payments without triggering a default, thereby maintaining the bond contract's integrity when the issuer exercises the contractually agreed-upon debt pause option.*

*The reference to restructuring in the consultative draft proposal anticipates the possibility that a restructuring may be necessary following a debt pause. Although debt pause clauses can provide much-needed liquidity relief to issuers during a crisis, there will be times when the severity of the economic shock necessitates restructuring, even after a pause in payments. In these situations, we believe existing bond contracts can be improved by incorporating mechanisms that accelerate the speed and efficiency of the restructuring process. The goal is to conclude any restructuring promptly and to reestablish market access quickly. Our proposal outlines four contract updates that will help achieve this goal, and it also describes the rationale behind these updates.*

### Is this another Debt Forgiveness Proposal?

*Our proposal suggests incorporating a short-term liquidity mechanism into bond contracts, allowing a sovereign issuer to defer a limited number of payments if necessary to respond to a catastrophe. Importantly, this proposal does not permit, endorse, or support compulsory haircuts or debt forgiveness.*

*Our proposal provides borrowers with the option to request a temporary payment deferral under specific conditions, as outlined in a contractually regulated protocol, typically lasting up to one year. During this pause period, countries can allocate their limited revenue towards emergency responses instead of servicing external debt. This approach provides a predictable, quantifiable, and readily available source of liquidity for countries facing significant external shocks at critical moments.*

*Deferred payments will capitalize with interest – i.e., investors will retain their contractual claims with interest, with deferred payments added to future principal amounts, ensuring investors receive full payment according to an adjusted timeline. The clause specifies a debt service "pause", not permanent debt relief.*

## QUESTIONS ABOUT THE SCOPE OF COUNTRIES COVERED

### Which countries would be covered by this proposal? Would it apply to all EMDEs, or would it be limited to low-income countries?

*This initiative targets Small Island Developing States (SIDS) as well as low-income (LICs) and lower-middle-income countries (LMICs). Although the range of countries included is wider than in other initiatives, such as the Debt Service Suspension Initiative (DSSI), we believe this approach is warranted.*

*Using the JPM Emerging Markets Bond Index Global (EMBIG) as a proxy for countries with outstanding debt, only two low-income countries, Ethiopia and Rwanda, are included in the EMBIG. A broader range of countries possesses similar vulnerabilities to these two, however. In this context, we believe it makes sense to extend the initiative to LMICs, as well.*

- SIDS in the Index: Dominican Republic, Jamaica, Trinidad & Tobago, Suriname, Barbados\*\*, Papua New Guinea, Maldives (\*\* Barbados bonds already have CRDCs)
- LICs in the Index: Ethiopia, Mozambique, Rwanda
- LMICs in the Index: Philippines, Egypt, Nigeria, Angola, Sri Lanka, Pakistan, Kenya, Ghana, Jordan, India, Morocco, Côte d'Ivoire, Uzbekistan, Senegal, Lebanon, Zambia, Honduras, Benin, Bolivia, Cameroon, Tajikistan, Kyrgyzstan.

*Expanding the universe of countries covered by this initiative should make the mechanism more relevant in the market.*

## QUESTIONS ABOUT THE BROAD SCOPE OF THE TRIGGER

### How broad will the range of qualifying external shocks be? Will events like war, terrorism, or BOP/exchange rate shocks qualify as eligible events?

*Our proposal recommends that the debt pause mechanism be designed to cover a wide variety of crisis events. Instead of specifying certain eligible trigger events in advance, we believe the mechanism should be flexible enough to accommodate a wide range of crisis types. This approach would allow the debt pause mechanism to serve as a standardized liquidity solution for a diverse range of countries. Recognizing that external shocks can push a country with sustainable debt levels into debt distress, a contractually regulated, transparent, and broad debt pause trigger mechanism can provide countries with an opportunity to take corrective actions and access the necessary liquidity to manage a crisis. A broad scope for the pause clause will also ensure that:*

1. *Issuers will have the flexibility necessary for an evolving and uncertain future climate, where shocks that may not be common today could become increasingly problematic over the next decade.*
2. *The debt pause framework for external bonded debt will align with/sync with the triggers set by other creditor groups, enhancing the chances of recovery and preserving the issuer's long-term repayment capacity.*
3. *Debt pause clauses for EM sovereign bonds will be standardized, more easily replicated, and scaled across various issuers. This will make it more straightforward for investors to analyze and price EM bond contracts that incorporate standard debt pause clauses.*
4. *The debt pause framework will remain stable over time. Broad triggers are more suitable for bond contracts, which are challenging to amend and typically have long durations.*

*However, we continue collaborating with rating agencies to ensure they are comfortable with this approach.*

### Why not differentiate between "Acts of God" and "Acts of Man" when defining which emergency events can trigger the debt pause clause? Why not automatically activate the debt pause for events of a certain magnitude that are "Acts of God"?

*The term "Acts of God" has traditionally referred to natural events so unpredictable and uncontrollable that no party can be held legally responsible. However, in the context of climate disasters, this idea becomes harder to define and apply. As human actions—such as greenhouse gas emissions, deforestation, and even emerging geoengineering experiments—contribute to the severity or frequency of extreme weather events, the line between natural and man-made causes becomes unclear. Courts and insurers face increasing uncertainty in determining liability and causation: is a flood still an "Act of God" if global warming made it more severe, or if geoengineering unintentionally played a part? This ambiguity challenges traditional legal frameworks that assume only natural causes, prompting a reevaluation of responsibility and risk sharing in a world affected by climate change.*

Geoengineering techniques like cloud seeding demonstrate that weather modification in one country could, in principle, alter precipitation patterns in neighboring or downstream nations. This can lead to increased droughts, crop failures, or water shortages elsewhere, sparking claims that a local intervention triggered a climate-related disaster abroad. Similarly, the legal treatment of pandemics demonstrates how disputed the “Act of God” category can be: some courts view events like Covid-19 as beyond parties’ control and thus covered by force majeure or “Act of God” clauses, while others highlight human factors—such as regulatory failures, global travel, or laboratory safety issues—as reasons to question whether a pandemic is entirely natural, resulting in litigation and contract disputes over whether losses are excused or insured.

In addition, many climate-vulnerable developing countries, especially small island developing states, explicitly reject the idea that their climate vulnerabilities are “Acts of God,” instead stressing that rising seas, stronger storms, and saltwater intrusion are driven by human-made emissions and historical responsibility concentrated in a few major economies. In climate negotiations, diplomatic statements, and litigation strategies, these states frequently emphasize that their exposure to hurricanes, flooding, and ecosystem loss is not simply a matter of natural bad luck but the foreseeable consequence of prolonged fossil fuel use and inadequate mitigation, reinforcing arguments for loss and damage finance, liability, and a rethinking of how law allocates responsibility for climate-related catastrophes.

Using the term “Acts of God” in bond contracts can create ambiguity and legal risks, as its definition is not fixed and is subject to change over time. When events trigger payment standstills or maturity extensions, investors and issuers may dispute whether specific occurrences—such as climate-amplified hurricanes, geoengineering, or pandemics—qualify as “Acts of God.” This uncertainty can result in controversies and litigation over causation, foreseeability, and attribution, potentially delaying relief and increasing costs, undermining the intended predictability of such clauses.

## QUESTIONS ABOUT THE DECLINATION OPTION

### **Are you worried that broad triggers are more likely to be misused without greater checks and balances?**

While investors may initially worry about potential abuse or pricing implications of broad triggers, several features of our debt pause mechanisms can alleviate these concerns. First, there is an investor protection mechanism known as a “Declination Option” that safeguards creditors by granting them a clear right to block an issuer’s request for a deferral, with 25% of holders able to call a vote and 50% of voting bondholders able to block the Pause request. This protection prevents issuers from opportunistically triggering deferrals. A second feature is a “Limited Usage Rights Provision” that limits the number of deferrals to once during the bond’s life and prevents activation near maturity, thereby protecting final repayment dates. Lastly, a requirement that bond deferrals can only be triggered when the issuer demonstrates that triggering clauses will be activated across the issuer’s other creditor groups, known as a “Trigger Synchronization Requirement,” can provide essential assurance that the issuer’s request for a debt pause will provide it with significant temporary relief and crucial breathing room for recovery.

### **Shouldn’t you increase the percentage of investors that can block the trigger? Isn’t the 50% declination threshold a bit low? Should the threshold be at least as high as it is for CACs?**

The broad scope of the trigger necessitates related protections for investors to prevent “opportunistic” or “pretextual” use of the debt pause. This is why the percentage required to block the trigger is set at a lower threshold of 50%. We aim to strike a balance, allowing issuers to activate the debt pause when truly necessary while also giving investors confidence that they can reasonably prevent any rogue behavior from issuers.

### **How does the declination option threshold of 50% relate to the broad scope of the trigger?**

The proposal aims to carefully balance the needs of borrowers and lenders, as bond investors and issuers must be assured that this structure effectively aligns the risks and rewards for both parties. The 50% threshold for the declination option is designed to reassure bondholders that they can effectively prevent the opportunistic use of the pause. The broad scope of the trigger (i.e., the wide range of potential events covered) necessitates related protections for investors to prevent unnecessary use of the debt pause. The lower threshold is intended to provide investors with confidence that they can reasonably prevent issuers from misusing the debt pause mechanism.

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## QUESTIONS ABOUT NARROWING THE TRIGGER & THRESHOLD TESTS

**Could a threshold test be added to limit the activation of the broad trigger? Is it possible to incorporate an assessment of damages from the World Bank, or could an IMF DSA be conducted post-event to determine a material change in the risk of external debt distress?**

We explored the possibility of introducing one or more threshold tests as an additional requirement for triggering activation. For example, we considered requiring the issuer to declare a National Emergency and to provide evidence that the emergency has caused a significant economic impact, such as a material reduction in GDP, or another similarly high threshold. Additionally, we discussed distinguishing between human-caused national emergencies, such as wars, terrorist attacks, tariffs, and other incidents that would not be covered, and non-man-made emergencies, such as hurricanes, earthquakes, droughts, and pandemics, which would be covered.

Our approach has aimed to maintain a broad definition, ensuring the debt pause mechanism functions as a standardized, contractually approved liquidity solution suitable for a wide range of situations and issuers. We believe that implementing arbitrary threshold tests or differentiating among specific types of eligible events while excluding others from triggering the mechanism will result in a more bespoke and fragmented market. Additionally, providing investors with a mechanism to reject an issuer's request for a debt pause, if it lacks sufficient supporting evidence of a crisis's severity, offers greater protection than arbitrary threshold tests, which are inherently difficult to measure and monitor.

We plan to provide guidance to issuers on how to request a deferral of debt service payments effectively. Although this guidance is not legally binding, it will serve as a roadmap, offering issuers examples of verification frameworks and proxy triggers to reference when invoking the debt service suspension clause in bonds. Our guidelines will include internationally recognized assessment frameworks, the use of multilateral emergency financing facilities, and other verification mechanisms designed to address crises.

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## QUESTIONS ABOUT THE NATIONAL EMERGENCY OR REQUEST FOR IMF EMERGENCY FINANCING REQUIREMENT

**How will the requirement that an issuer either declare a national emergency or issue a public statement confirming the application to the International Monetary Fund for emergency financing work for both creditors and issuers?**

To start the process of requesting a deferral, an issuer has two options: they can provide evidence that a national emergency has been declared, or they can submit proof of a public statement confirming their application for emergency financing from the International Monetary Fund. Either the Issuer or any other competent political or regulatory subdivision thereof makes a national emergency declaration confirming the crisis event described in their deferral request has occurred or the Issuer has made an application to the International Monetary Authority (the "IMF") for emergency financing assistance in the form of a Rapid Financing Instrument or a Rapid Credit Facility (as applicable), or such other similar financial support from the IMF that may be available from time to time. Recognizing that social and political factors may hinder an issuer's ability to declare an emergency promptly or publicly before requesting a debt pause in bonds, we believe that an issuer's application for emergency assistance from the IMF's RFI/RCF serves as a reliable proxy for a declaration of national emergency.

The World Bank and other MDB lenders that include debt pause mechanisms in their lending protocols require the issuer to submit a national emergency declaration as the first step in the activation process for their triggers. We expect the requirement outlined in our proposal to function similarly.

Specific provisions regarding the "declaration of national emergency" requirement would include:

The country shall declare a national emergency in full compliance with national and other applicable law. Along with its request to activate the bond debt pause, the issuer shall deliver to the bond's trustee a certification from the issuer's highest legal officer that:

- The declaration is compliant with all applicable laws. The declaration is a legal, valid, and binding document.
- Throughout the bond's lifespan, the issuer shall publish details of the debt pause clause in its various debt instruments, along with the nature of the pause trigger mechanics, including any requirement that the issuer declare a national emergency.

Specific provisions regarding the “application for emergency assistance from the IMF’s RFI/RCF” would include:

- The issuing country's authorities (e.g., the Ministry of Finance or the Central Bank) make a formal request to the IMF for financial support. Initial contact can take various forms, but it must be followed by an official inquiry and a formal application.
- Applications for the RFI/RCF must demonstrate that they meet specific qualification criteria, including: 1) an urgent BoP need that, if not addressed, would cause immediate and severe economic disruption; 2) that their debt is sustainable or on track to be sustainable, as confirmed by a Debt Sustainability Analysis (DSA); and 3) a commitment to pursuing broadly appropriate policies to address the crisis.

#### How can you prevent the abusive use of the national emergency requirement? How can you delink the requirement from anti-democratic, martial law consequences?

Investors may deny a request for a debt pause if they believe an issuer's emergency declaration is motivated by anti-democratic or authoritarian reasons. Additionally, we will provide guidance to issuers seeking a debt service deferral on best practices and standards for credible deferral requests. Although the guidance is not binding, it will serve as a roadmap, providing issuers with examples of verification frameworks or proxy triggers to reference when invoking the debt-service suspension clause in bonds. The guidelines we provide will include internationally recognized assessment frameworks, multilateral financing facilities, and other verification mechanisms that address various crises, including but not limited to natural disasters, pandemics, health emergencies, conflict, and macroeconomic distress. These guidelines will provide issuers with specific examples of credible evidence to support their request for a debt service suspension and clarify that emergency declarations alone will not be sufficient to satisfy investors considering an issuer's request for a deferral. Investors will expect issuers to refer to these frameworks during the global call with bondholders, which will be a requirement for any deferral request. Issuers may reference one or more measurement frameworks or mechanisms listed in the guidelines provided.

## QUESTIONS ABOUT THE TRIGGER SYNCHRONIZATION REQUIREMENT

#### How does this framework incorporate other sources of crisis response, such as IMF RFI facilities? Does the debt pause clause assume that it will not be triggered until all other avenues of support have been exhausted?

Our "Trigger Synchronization Requirement" requires the issuer to demonstrate concurrent activation of provisions similar to a debt pause across the issuer's other creditor groups. This assures that a debt pause request will supply credit-supportive liquidity relief and sufficient fiscal space to support the country's economic recovery. The issuer would have to demonstrate that 60% of its eligible external indebtedness has provisions similar to a debt pause and that the issuer has invoked or will invoke such provisions. We expect that comparing debt pauses across other commercial creditor groups will be straightforward—either other bonds or loans have a debt pause mechanism, or they do not. If the issuer is unable to credibly demonstrate that 60% of its creditors are participating in their debt pause request, they will not be able to trigger individual bonds that have our proposed debt pause mechanism. We hope that this requirement prompts issuers to pursue (on an accelerated basis) similar debt pause features throughout their entire debt structure. Our proposal does not require that pause language be identical or parallel to ours; only that the issuer can achieve the result of pausing 60% of its debt service by whatever means are available.

We expect the trigger synchronization requirement to apply exclusively to commercial creditors and non-concessional official sector lenders. Official creditors may provide emergency funds to countries through facilities like the IMF RFI/RCF or the World Bank Catastrophe Deferred Drawdown Option (Cat DDO). We aim to define this requirement most effectively by considering alternative forms of contributions from both bilateral and official sector creditors. We see official sector crisis response facilities as primarily functioning as a liquidity “contribution,” similar to a debt pause during times of crisis. For bilateral creditors, participation in multilateral initiatives similar to the DSSI would also be viewed as a contribution.

## How do previously issued Eurobonds without debt pause language in their debt agreements fit into the Trigger Synchronization Requirement?

The synchronization requirement is designed to ensure that bondholders with pause clauses are not the only creditors providing liquidity while others continue to be paid in full. If an issuer has a pause clause in only one bond (Bond A) but not in its other bonds (Bonds B, C, D, etc.), the clause in Bond A will, in practice, be unusable because the issuer is unlikely to reach the 60% synchronization threshold needed to activate it.

The synchronization requirement may also incentivize issuers to embed pause architecture across their entire debt stack on an accelerated timetable, rather than replicating the slow, issuance-by-issuance rollout seen with CACs. The underlying logic is that a debt pause delivers meaningful benefits only if it creates substantial, system-wide liquidity relief and fiscal space that support economic recovery. Pausing payments on a single bond while continuing to service other bonds and other creditor groups will not generate enough liquidity to matter, so the synchronization test both prevents a one-bond pause scenario and encourages rapid, comprehensive adoption of pause clauses.

The trigger synchronization requirement applies to all creditors except for official multilateral creditors, such as the IMF, WB, and similar MDBs formed by numerous sovereign members and without commercial ownership. These institutions are excluded from the calculation, while newer, more commercially oriented development banks that lend on non-concessional terms are included. The synchronization perimeter is defined as Total External Debt minus official multilateral debt, yielding the “Synchronization-Eligible Debt” pool, which covers internationally issued bonds, bank loans, and bilateral debt.

Many bilateral creditors are already adding CRDCs or DPCs to their loans: the UK has adopted CRDCs, Japan has piloted a CRDC program, and Spain, France, and Canada have committed to including them. Although non-Paris Club bilateral lenders may be slower to adopt CRDCs, their participation in the DSSI, including China and other non-traditional bilateral lenders, suggests they could again provide a pause under any future DSSI-type initiative. Such participation in a “DSSI 2.0” would count toward the 60% synchronization threshold. Commercial banks generally do not yet include CRDCs or DPCs in their lending and are still evaluating how best to incorporate pause-type features, given regulatory constraints.

## QUESTIONS ABOUT PRICING

### How do you expect the addition of a debt pause clause to impact pricing at issuance? The bond market generally does a poor to awful job pricing embedded options at issuance, so shouldn't investors get paid for selling that option?

We acknowledge that the market often fails to price embedded options accurately. However, rather than offering investors higher yields for deferring just two interest payments—an approach commonly seen in similarly structured debt within the high-yield (HY) or leveraged loan (LL) markets—our approach has focused on creating a package of non-financial features that provide tangible value to investors. These measures include improved transparency covenants, the option to change the bonds’ governing law (in the event statutory attempts to remake the sovereign debt landscape negatively impact contracts/creditor rights), and additional contractual enhancements. Investors assign these features real value. We believe they also create a public good that improves the functioning of sovereign debt markets (e.g. via enhanced transparency), which can have a broad, positive impact on market yields. By incorporating these features into bond contracts, then, we’re able to mitigate the negative impact on pricing that would otherwise exist when the option value of deferrals is incorporated into spreads.

We want to highlight that for countries facing high but manageable debt burdens, a temporary deferral provided by pausable debt can help prevent chaotic defaults that would lead to larger losses for investors. These clauses can support the country’s long-term repayment capacity by allowing its economy time to recover before debt payments resume. Repayments are deferred rather than reduced or canceled, and these clauses offer protection against unforeseen events under clear, pre-agreed terms. We believe this feature will enhance predictability during crises. Instead of dealing with the uncertainty of ad-hoc restructurings or sudden payment suspensions, investors will benefit from a predefined, transparent mechanism that allows for the capitalization of up to two coupon payments, once during the bond’s life. This predictability can help reduce market volatility and support more stable pricing during crisis periods.

## **Is a bond with a debt pause mechanism considered a bond with a contingent claim?**

*Bonds with a debt pause mechanism are neither a subspecies of contingent claim bonds nor state-contingent debt instruments. The par claim is never changed. The contractual coupon is never changed. The only potential change is the timing of two interest payments. Any interest payments deferred are capitalized and added to the final payment. This structure does not create a “contingent claim”.*

## **Why not price the deferred payments at a higher yield, as is done in the High-Yield and Leveraged Loan markets?**

*In the high-yield/leveraged loan market for Payment-In-Kind (PIK) or toggle bonds, the standard pricing range for deferred cash flows is typically between +100 to +200 basis points and can even reach +300 basis points for riskier credits. These deferred cash flows accrue at a pre-agreed spread relative to the original contractual interest rate. Investors enter into contracts specifying one interest rate for cash coupon payments and a different, higher rate for coupons that are paid in kind (PIK). It is important to note that PIK premiums fluctuate over time, influenced by factors such as market liquidity and investor risk appetite. Additionally, there may be circumstances where issuing PIK bonds becomes challenging, even when the offered PIK premium is as high as +200 or +300 basis points above the issuer's observed market yield.*

*We considered this approach as a starting point for this initiative, but concluded it was not optimal for EM sovereign bonds for a few reasons:*

1. *The current approach does not tackle the scalability issue and may exacerbate the difficulties associated with the customized evolution of the marketplace for sovereign bonds with CRDCs. As a result, the PIK premium pricing will fluctuate over time and will likely be significantly higher (by 200 or more) for more vulnerable countries.*
2. *Without the additional contractual/transparency enhancements we outline, it does not address the concerns about creating additional creditor classes in a future restructuring or about the risk of coercive exchange offers if a default becomes necessary.*
3. *Transparency, debt disclosure requirements, and restructuring processes are much better/better defined in other credit markets, so investors can more efficiently price the deferral and understand how such a "deferred payment claim" will be treated in a future restructuring.*

*We aimed to find a solution that could quickly promote the adoption of a debt pause mechanism in sovereign debt without increasing the issuer's cost of capital. Thus, we focused on enhancing the non-financial terms of EM sovereign bonds to provide investors with a much-needed value proposition instead of additional spread. In our discussions, investors also valued the likely increased liquidity of bonds with a standardized approach. Furthermore, they appreciated the enhanced likelihood that the issuer's debt pause would be synchronized across creditor groups and that the approach would remain consistent over time.*

*Investors have raised concerns about distinguishing and pricing bonds from the same issuer that have varying PIK premiums and differently defined trigger events. For instance, they want to avoid situations where one bond issued by Country X has a PIK premium of +200, while another issued by the same country has a PIK premium of +100. Pricing bonds from the same issuer with different PIK premiums will be inefficient, especially in varying states of the world when, for example, that country's bonds might be trading at +1,000bps. Investors would prefer to avoid differentiating between a bond issued by country X, which only triggers in the event of a hurricane of specific magnitude, and another bond issued two years later by the same country that includes triggers for both hurricanes and earthquakes, along with a payment-in-kind (PIK) premium of +100bps.*

## **Could you elaborate on the statement that “Any modification in the payment terms of a bond, even a temporary deferral of payments, introduces incremental credit risk for investors”?**

*If the probability of a credit event at any given point in time is non-zero—as is always the case for private sector holders of sovereign debt—then an extension of a bond's average time to repayment implies an increase in the length of time that the investor is subjected to potential repayment risk. If a country is facing a severe crisis, investors will likely assign a higher risk assessment to the issuer. This will typically lead to widening credit spreads, falling bond prices, and bonds likely trading at a discount below par when the issuer requests a payment deferral. Because risk will be elevated when the issuer defers*

*payments, cash flows will be discounted at a higher rate due to their extended duration and the uncertainty surrounding the issuer's capacity to make future cash payments amid the ongoing crisis. Therefore, credit risk increases incrementally with any extension of the bond's terms.*

**This instrument, which includes a pause clause, may be more complex to price and could result in a premium. Could this approach drive up the cost of capital for these countries?**

An instrument with a pause clause may initially appear more challenging to price and likely to command a wider spread, as investors typically view any option to defer cash flows as adding uncertainty. However, the key point in this proposal is that the design does not offer issuers a free option to push out coupons. Instead, the clause is connected to a broader package of contractual enhancements that are intended to offset the perceived cost of the pause mechanism.

The package includes improved transparency covenants, the option to change governing law to preserve enforceability in the event of adverse legal changes in New York or the UK, and other investor protections. Taken together, these features are designed to provide measurable value to bondholders, in some dimensions even increasing the attractiveness of the instrument relative to standard sovereign bonds. If you set aside the limited pause clause, the transparency package and governing law enhancements would almost certainly make the instrument more valuable. Investors must therefore value the whole package as a combined proposition, not just the pause clause in isolation.

When paired with improved transparency and governance measures, a pause clause allows the issuer to manage risks responsibly and transparently rather than shifting risk to creditors. This balance means that the overall structure need not result in a higher yield or wider spread. In fact, if investors view the contractual protections and resilience enhancements as credible, the net effect could be to stabilize or even improve secondary market pricing, thereby aligning investor incentives with the issuer's goal of maintaining access to funding at sustainable costs. We believe that once these clauses are in place across the stack, value is created for bondholders by reducing, in some cases, the likelihood of a hard default. And, because of the sync requirement, we can incentivize countries to negotiate similar terms across their stack.

If you set aside the limited pause clause, would your bonds be more valuable with the transparency package and the proposed changes to governing law? You have to value the whole package. The proposal does not endorse offering a free option to defer coupons without other contract enhancements.

## **QUESTIONS ABOUT COMPLEMENTARY RISK MANAGEMENT TOOLS/UPDATES TO 2014 ICMA STANDARD CONTRACT**

**Why is a mechanism to form an Official Bondholder Committee important to investors?**

*Bondholder committees have long enhanced speed and efficiency in sovereign debt restructurings. To address the recently observed issue of multiple bondholder committees forming, we propose a process for efficient and representative bondholder committee formation that an issuer may recognize but is not compelled to recognize. However, support for this creditor-led, representative committee's proposal would enable the issuer to lower the bonds' single-limb CAC voting threshold for that proposal. This "carrot" will entice bondholders and issuers into using the most efficient, single bondholder committee structure.*

*It is important to distinguish our proposal from those made in 2014 (and earlier), which suggested that issuers be required to acknowledge and engage with a bondholder committee. Those earlier proposals mandated engagement but did not outline how a committee would be formed. In contrast, we are approaching this issue from a different perspective. We are outlining a process for establishing a representative, creditor-led committee by incorporating specific procedures for committee formation into the document. While issuers are not obligated to engage with this committee—or any committee—our proposal offers an incentive for good faith engagement. If an official committee endorses a deal, we will agree to lower the CAC (Collective Action Clause) threshold at least for a one-limb deal.*

*Issuers can choose to continue their current approach, but they will forfeit the additional benefit we outline, specifically a reduced single-limb CAC voting threshold. By establishing a clear protocol for the formation of an official bondholder committee, we believe that restructurings can proceed more quickly and smoothly.*

### Why would bondholders value a mechanism to switch governing law and jurisdiction?

The IMF recently noted in its paper “A Stocktaking of the International Architecture for Resolving Sovereign Debt” that “statutory tools, by design, impact and likely undermine creditor rights”, which creates real risks for both issuers and creditors in attempting to design a statutory approach to resolve sovereign credit events. We strongly agree with the Fund in this regard. It’s also worth noting that repeated attempts to advance legislation in both the New York State Assembly and the United Kingdom have been widely criticized by investors and issuers as political and arbitrary, and could impose costs on existing sovereign debt markets. To be clear, we believe the proposed statutory approaches will negatively impact credit spreads and issuers’ ability to access the capital markets, particularly for countries at the lower end of the credit ratings spectrum. To avoid this, bondholders should have the right to select an alternate jurisdiction that does not impose these additional obstacles if any harmful legislation takes effect.

We do not expect bondholders to invoke this clause unless there is a significant and adverse change in the legal framework governing sovereign bonds in New York or the United Kingdom.

### Why separate the bondholder vote to approve a restructuring from the instrument selection offered as part of a restructuring?

Issuers currently have the ability to conduct coercive debt exchanges by threatening an implicit penalty, as the only way for bondholders to make an instrument selection in an exchange offer is to return a consent. Non-consenting holders can be put at risk of receiving bonds of significantly lower value compared to the other available choices. In effect, issuers can penalize dissenting holders by forcing them to accept less valuable bonds if they oppose the proposed exchange terms. To prevent such coercive practices and promote fairness and transparency in the restructuring process, the bondholder vote to approve an exchange offer should be separate from the vote to select the new instruments resulting from the restructuring.

In the past, Ecuador used a tactic known as the “booby prize” bond gambit to pressure bondholders into accepting a take-it-or-leave-it exchange offer. This coercive approach led to a lawsuit being filed by Contrarian Capital and others. Similarly, the province of Rio Negro in Argentina employed this tactic as well. In 2020, Argentina attempted to misuse redesignation in an abusive manner. More recently, Ukraine also tied instrument selection to affirmative consent in its exchange offer.

### Can you explain how deferred cash flows would be treated and what you mean by PDI treatment in any future restructuring?

We propose that the payment deferrals resulting from the pause clauses should be treated by all involved stakeholders as “past due interest” in the event of a later debt restructuring. We aim to establish this as a standard by incorporating it into the document. It simply lays down a marker so that everyone enters the negotiation under the assumption of PDI treatment for deferred payments. This idea is not a change as much as it is a recognition that the bonds’ paused payments provide financial support to the issuer, along with other creditors who provide financing or deferrals at the same time. The amount of the bonds’ paused payments should hold the same “priority” as those of other creditors’ financings/deferrals in any later debt restructuring. Creditors often receive new bonds in exchange for these PDI claims. While these bonds are structured to align with the debtor’s ability to repay, PDI claims are typically recognized and compensated through separate instruments that are generally shorter in duration and may be more valuable to investors.

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## QUESTIONS ABOUT THE ENHANCED TRANSPARENCY REQUIREMENTS

### Regarding the transparency issue, given the reliance on institutions to bolster transparency and the weak institutional capacity of some issuers likely to use this mechanism, how would you propose independently rating or grading a country's transparency beyond the commitment on the issuer's part to transparency and information sharing?

Our transparency clauses require countries to publicly share information they already possess, such as comprehensive debt statistics in millions of dollars, on an investor website in English, or to publish their Article IV reports. The required information

is only that which a country must provide to ensure its IMF Article IV reports are accurate. Additionally, we hope to disincentivize the use of confidential debt going forward and incentivize the reporting of existing confidential debt in a high-level, aggregated format, along with other relevant items. We have also suggested that these transparency improvements could be implemented in phases or with a grace period. This would involve countries committing to these disclosures and gradually making them public over a timeframe of 2 to 4 years.

We have also established a protocol that requires issuers to obtain a Second Party Opinion (SPO) to verify compliance with contractual transparency requirements for a period of three years. This engagement will include compliance reporting by the SPO, which will publish an annual checklist indicating whether the issuer is providing the required information. The checklist will be a simple Yes/No format to show compliance. We aim to encourage compliance with the transparency clauses in a straightforward and low-cost manner.

## QUESTIONS ABOUT INDEX ELIGIBILITY AND RATINGS:

### Will bonds with a debt pause clause be index-eligible?

We have discussed the proposal's debt pause structure with JPM's index group. JP Morgan does not provide ex ante determination of index eligibility. However, we are confident that our proposed structure abides by the published index diagnostic criteria.

### What have the Credit Rating Agencies said about how they would rate bonds with a debt pause clause?

We are discussing the benefits of our proposed debt pause architecture with the three major rating agencies.

## QUESTIONS ABOUT THE FREQUENCY OF TRIGGERS - ONLY ONCE vs. MORE

### How do you address the limit of activating the trigger only once in the life of a bond vs. the desirability of avoiding non-comparable treatment across different bonds?

Investors are open to the idea of allowing more deferrals, such as increasing the deferral frequency from once to twice for longer-term bonds. However, the proposal is intentionally drafted at a high level. Following discussions with other investors and rating agencies, we anticipate providing more details on this matter.

## OTHER QUESTIONS:

### Dealing with unexpected fiscal or BOP shocks is exactly why the WB and IMF exist. Why shouldn't bond investors leave this type of crisis response to the IFIs?

As long-term investors committed to the stability and growth of the emerging markets debt asset class, we see value in proactively developing crisis response tools that also benefit private creditors.

Pause clauses reduce uncertainty, limit contagion risk, and help stabilize markets—aligning the interests of both sovereign borrowers and private investors. By ensuring that capital markets remain a functional source of financing even during periods of stress, they reinforce confidence in the asset class over the long term. Importantly, pause clauses do not displace support from the IMF or the World Bank; instead, they coexist with official lending programs as complementary tools. Both institutions are increasingly recognizing their value and encouraging their integration into sovereign debt management frameworks.

**Is there an example of a country in the latest round/spike of defaults from 2019 through 2023 that would have AVOIDED default if the pause clause were in place?**

*The purpose of a pause clause is not to provide long-term debt relief but to enhance short-term resilience by offering contingent liquidity to help countries withstand external shocks. Our proposal emphasizes the design of a short-term liquidity tool, paired with greater transparency in sovereign lending, allowing for a temporary suspension of debt service for two semi-annual coupons. It is not intended as a solution for countries already facing unsustainable debt dynamics.*

*Historical experience suggests that a pause clause might have reduced the likelihood of default in a few cases during the 2019–2023 cycle; however, most distressed sovereigns during that period required far deeper restructuring or structural adjustments. Ethiopia, for instance, faced famine and civil conflict, but its challenges ultimately stemmed from a heavy repayment schedule and the absence of an IMF anchor. Even if a pause clause had been available, the measure might not have altered its trajectory. In Pakistan, a short-term pause might have facilitated a smoother entry into an IMF program after the floods, while in Mozambique it could have created space for recovery after cyclones. Yet in both, underlying vulnerabilities meant a pause alone would not have ensured durable debt sustainability.*

*For countries such as Sri Lanka, Ghana, and Senegal, the transparency requirements embedded in a pause framework might have yielded real benefits by limiting information asymmetries and improving market confidence. Still, the pause mechanism on its own would have been inadequate to resolve the scale of their unsustainable debt burdens.*