



# **BROAD DEBT PAUSE CLAUSES AND ENHANCED TRANSPARENCY IN EMERGING MARKET SOVEREIGN BONDS**

---

A Proposal from the London Coalition Bondholder  
Working Group



# The London Coalition

## AGENDA HIGHLIGHTS



01.

The BHWG Initiative in Context

02.

Broad Debt Pause Clauses:  
Concept and Rationale

03.

Increased Transparency for  
Clauses to Work Effectively

04.

Benefits for Issuers & Investors

05.

Implementation



# THE LONDON COALITION DEBT PAUSE CLAUSE INITIATIVE IN CONTEXT



- Design a scalable, standardized liquidity tool for EM issuers.
- Do not expect it to address solvency problems.
- Avoid any negative impact on issuers' cost of capital or ratings.
- Balance the needs of issuers and investors.
- Ensure broad market acceptance and a clear path to rapid implementation.



# ISSUER VS. INVESTOR PRIORITIES



## What Issuers Prioritized:

01.

- Cost
- Ratings
- Predictability
- Removing Stigma

## What Investors Prioritized:

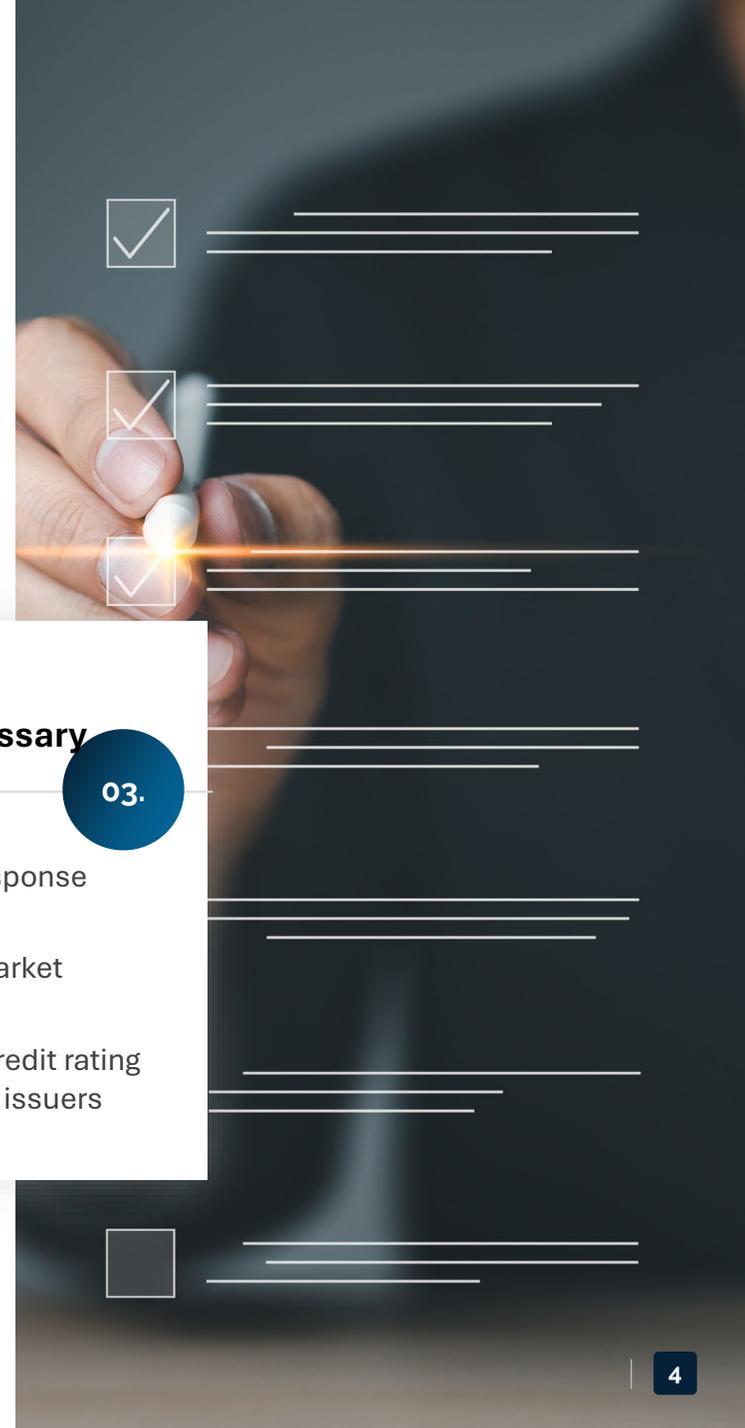
02.

- Transparency
- Standardization
- Assurance that the liquidity provided will improve recovery
- Consistency over time

## Shared Priorities: Preventing Unnecessary Defaults

03.

- Predictable crisis response mechanism
- Preserving capital market access
- Mitigating negative credit rating and cost impacts for issuers





# CRDC ADOPTION TIMELINE 2015-2025



Hurricane only



+ Earthquake



+ Flood



+ Tsunami



+ Flood & Drought



All Natural Disasters

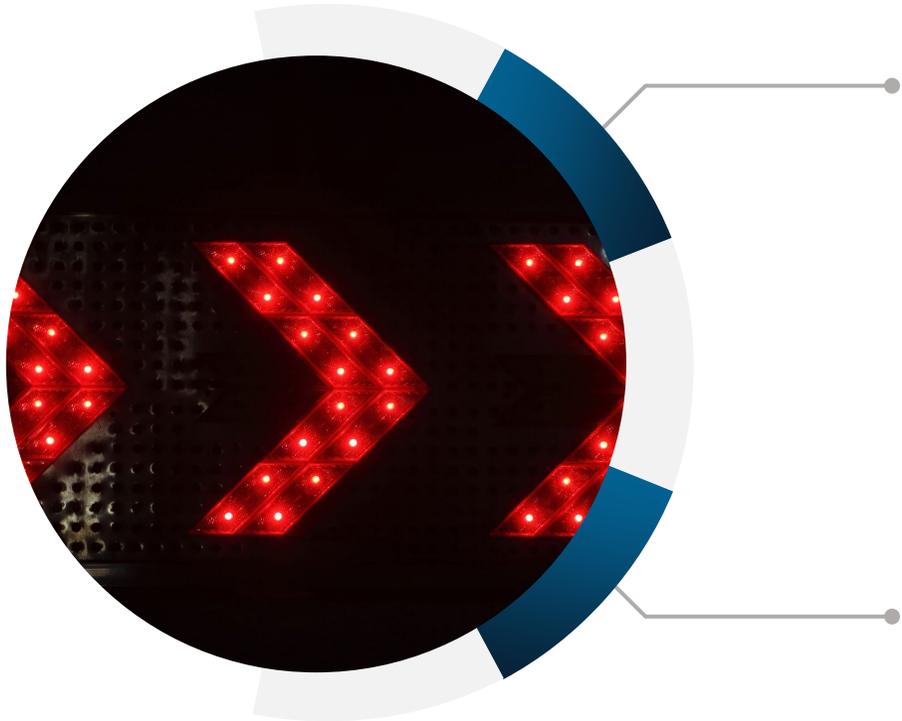


All + Pandemic

World Bank											
EBRD											
UK Export Fin.											
Japan Export Fin.											
IADB											
Grenada											
Barbados											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025



# BROAD DEBT PAUSE CLAUSES: CONCEPT AND RATIONALE



## Purpose of Debt Pause Clauses

- Allow sovereigns to temporarily pause debt payments to manage liquidity.
- Avoid triggering default by preventing disorderly outcomes during financial distress.



## Conditions for Activation

- Cover a wide range of crisis events.
- Use a streamlined, fast, and transparent activation process.
- Automate the pause for catastrophic shocks exceeding 15 percent of GDP.
- Include contractual safeguards to address investor concerns about opportunistic or uneven use of the pause.



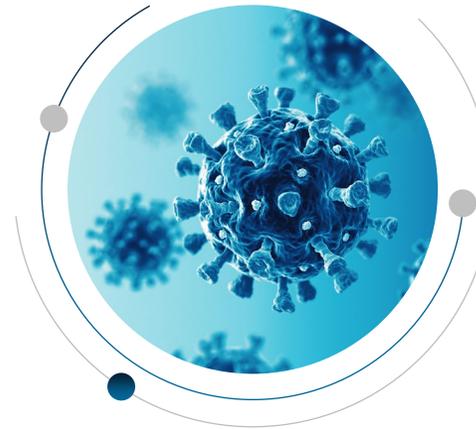
# OBJECTIVES: FINANCIAL STABILITY, CRISIS MITIGATION & AVOIDING UNNECESSARY DEFAULTS



Enhance sovereign liquidity so countries can prioritize emergency response over external debt service.



Reduce contagion risk by avoiding costly defaults and preserving market access through a contractually pre-agreed debt pause.



Reduce uncertainty and lower the cost of capital over time through greater transparency and a predictable crisis-response mechanism.



Enable more orderly debt resolution by updating contracts to allow faster, more efficient restructuring when shocks prove too severe.



# MECHANICS OF THE DEFERRAL FRAMEWORK

What do Issuers Get?



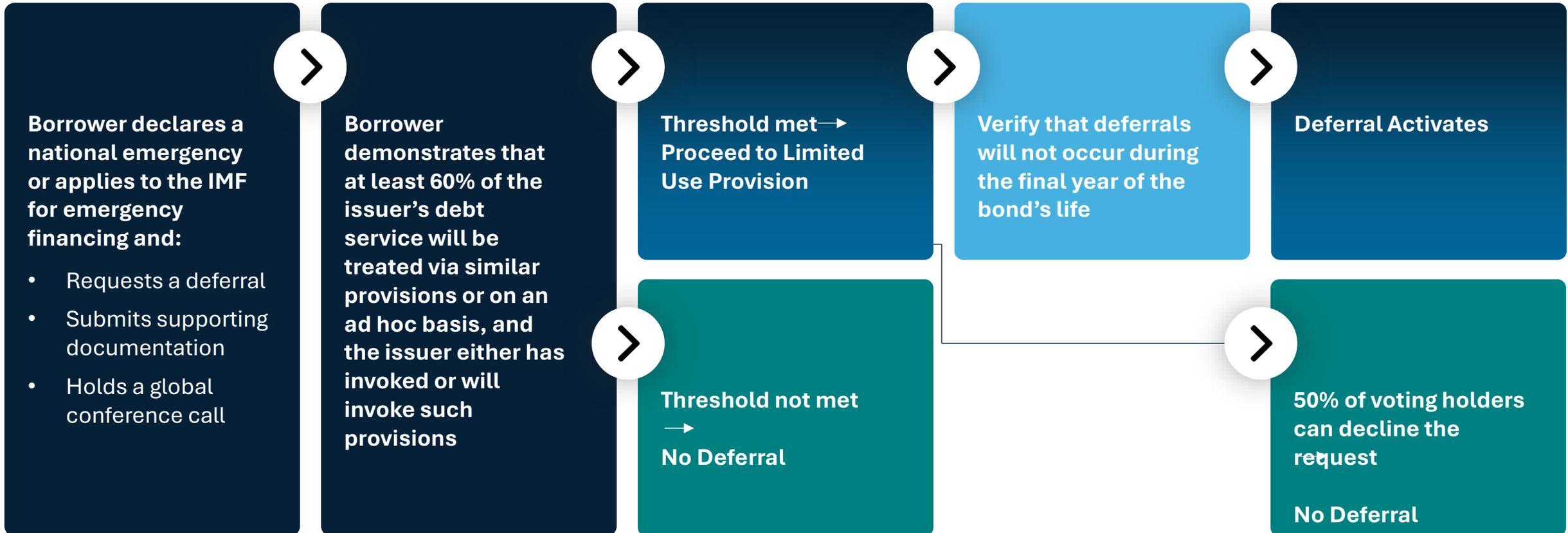
**Mechanics of the Debt Pause:**

**The issuer may:**

- Defer payments related to climate disasters, conflict, pandemics, and other significant macroeconomic challenges
- Defer two semi-annual payments, or the equivalent, and amortizations without triggering a default
- Defer payments once during the bond's life.
- Capitalize deferred payments into principal at the prevailing coupon rate to be repaid at maturity
- Bonds with maturity > 10 years can be considered for a second period of contractual deferrals

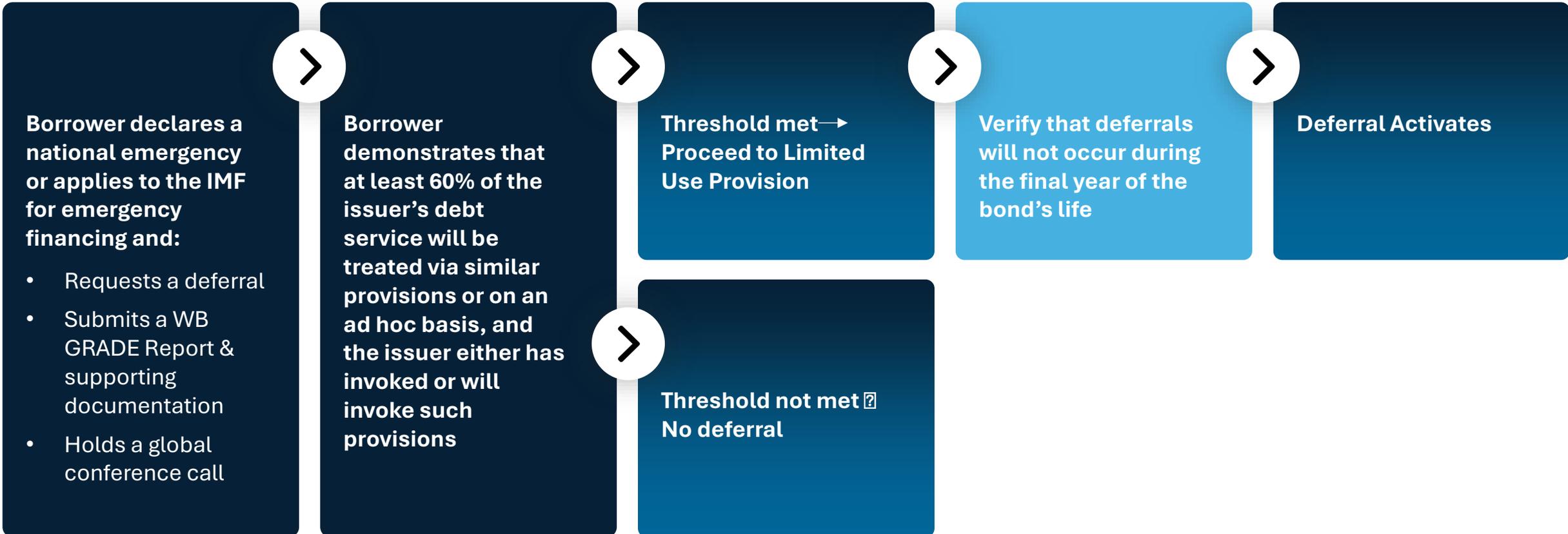


# DEFERRAL REQUEST & BONDHOLDER DECLINATION MECHANICS





# DEFERRAL REQUEST WITH WORLD BANK GRADE REPORT > 15% GDP IMPACT





# CLEAR AND FUNCTIONAL CONTRACT PROVISIONS TO OPERATIONALIZE THE DEBT PAUSE



## Ensuring Transparency of Deferral Requests

Make national emergency declarations and deferral requests transparent to all creditors to reinforce market confidence.



## Ensuring the Debt Pause is Synchronized

Synchronize debt pauses across most of an issuer's debt to deliver meaningful temporary relief and breathing room.

Other commercial, bilateral, and official creditors can satisfy the test through broadly similar liquidity contributions that achieve a similar pause-equivalent effect, even if their instruments are structured differently.



## Preventing Opportunistic Use of the Debt Pause

Safeguard investors through a bondholder "Declination Option," allowing a 50 percent vote to reject a deferral request and curb opportunistic use.



## Importance of Transparency

Share information regularly so that clauses work effectively, and investors clearly see the value proposition



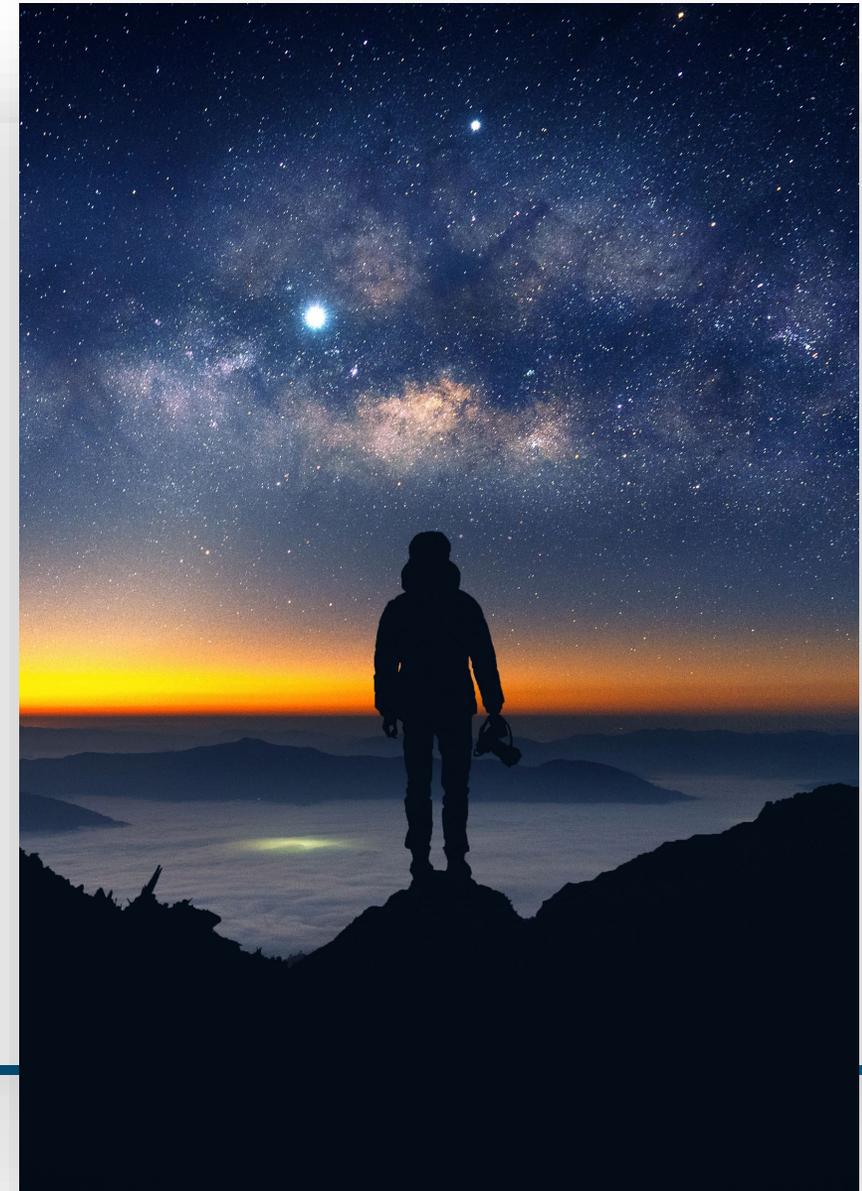
# IMPLEMENTING DEBT PAUSE CLAUSES: THINK BIG



- Faster, broader implementation viewed positively by investors
- Debt pause architecture will prove most powerful when applied universally across a country's debt stack
- Partial implementation may pose several challenges. Gradual implementation of a debt pause in a single bond instrument would not have a significant financial impact



**Conclusion:** Issuers should explore various implementation strategies that could accelerate their ability to take advantage of pause clauses





# WHY BROAD DEBT PAUSE CLAUSES & INCREASED TRANSPARENCY IN EM BONDS

