

Broad Debt Pause Clauses and Increased Transparency in Emerging Markets Sovereign Bonds

A Proposal from the
Bondholder Working Group*

April 2026

**The London
Coalition**

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A Proposal from the Bondholder Working Group¹ Convened by the London Coalition²

Over the past year, we have engaged in extensive, iterative conversations with a wide range of sovereign issuers, investors, official sector stakeholders, rating agencies, and other market participants to develop a truly scalable liquidity tool that can work across the emerging market sovereign bond asset class and that issuers and investors see as practically useful. These discussions made clear that issuers' main concerns are avoiding any increase in their cost of capital, steering clear of paths that might lead to lower credit ratings or index exclusion, and ensuring that any new mechanism does not carry stigma or convey a reduced willingness to service their debts. Investors, for their part, emphasized their fiduciary duty to support a framework that addresses the pricing impact of payment deferrals in a higher-yield environment by embedding contract features that provide offsetting benefits and strengthen the overall risk-return profile of the bonds. At the same time, investors expressed a strong preference for standardization best achieved through a broadly framed trigger that can respond to a wide range of crises—from climate and health shocks to conflict and macroeconomic dislocations—that can remain relevant in an evolving and uncertain future, rather than being tied to bespoke and narrowly predefined contingencies that could quickly become outdated.

This proposal reflects those shared priorities. It recommends a standardized, contract-based liquidity mechanism designed to preserve issuers' market access, protect investors' long-term claims, and reduce rating and pricing frictions. The proposal also incorporates transparency and governance measures that both make pause clause instruments more analytically robust and resilient over time for market participants and create a public good by giving civil society better tools for visibility and accountability. We believe our proposal presents a win-win architecture that broadens the availability of contingent liquidity without increasing borrowing costs, supports more predictable and orderly crisis responses, and can be scaled across a wide range of emerging-market sovereign bond issuers.

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² See: <https://www.ssdh.net/london-coalition>

Introduction

Sustained economic growth underpins healthy sovereign debt dynamics and strong credit trajectories in emerging market and developing economies (EMDEs). It provides the foundation for broad economic development and improved living standards. However, many EMDEs, especially lower-income countries, are more vulnerable to external shocks, including climate-related shocks, due in part to their more limited financing options and fiscal flexibility. As the frequency and severity of various shocks increase, there are growing calls to redesign sovereign financing to better support the resilience of these countries. When disaster strikes, efficiently reallocating limited resources from debt service to crisis response can help close near-term financing gaps and reduce credit risks over time.

Debt pause clauses can transform conventional bonds into instruments that enhance resilience during catastrophic crises. However, to work effectively for private sector participants, they must be paired with improved transparency provisions and enhanced investor protection measures. Any modification in the payment terms of a bond, even a temporary deferral of payments, introduces incremental credit risk for investors. Transparency gives investors the essential information they need to make informed risk assessments. When paired effectively, debt pause and enhanced transparency clauses can help address the challenges of responding to crises and mitigate the uncertainties that both issuers and investors face in the event of sudden and sizable shocks.

To encourage the inclusion of debt pause clauses in commercial contracts—thereby supporting a growth-positive and credit-positive evolution of sovereign debt contracts—we believe that the framework for debt pause clauses in bond contracts should be based on the following four principles:

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| <p>1. A standardized response to crisis events through the adoption of a “broad triggers” approach.</p> | <p>2. A scalable framework that can accommodate a wide range of countries.</p> | <p>3. Clear and functional contractual provisions to operationalize a debt pause.</p> | <p>4. An environment of debt transparency, supported by enhanced transparency clauses.</p> |
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We address each of these in turn.

A Predictable Response to Crisis Events

Standardizing a Liquidity Solution

Debt pause clauses have, so far, largely taken shape as climate resilient debt clauses (“CRDCs”) in sovereign lending arrangements. CRDCs have evolved over time, varying from lender to lender in both contractual terms and eligible countries, resulting in a bespoke and somewhat fragmented market. The types of events that would trigger a pause are also not consistently defined among bilateral and multilateral

stakeholders and are inherently subject to change due to structural uncertainties regarding future states of the world.

Bond markets are not well-suited for ex-post revisions because most bond contracts have relatively long durations, involve multiple parties during the funding process, and are challenging to amend. By broadening the range of emergency options available for issuers, a more sustainable and standardized liquidity solution can be developed, enhancing the chances of recovery and potentially preserving the issuer's long-term repayment capability. This approach also increases the likelihood of synchronizing an issuer's debt pause.

To ensure debt-pause structures remain consistent over time, we believe broad triggers are essential. These triggers should give issuers latitude in determining when (and why) to request a pause, paired with meaningful contractual investor protections to prevent the opportunistic or inequitable use of a debt pause.

Scalability

A Pause Framework that can be Scaled and Replicated Across Countries

We believe that broad triggers offer advantages across several dimensions: scalability, future-proofing, simplicity, and market acceptance. We maintain that a liquidity solution can only be scaled and replicated if it is standardized, which cannot be achieved with bespoke triggers. A standardized model can make the structure accessible to all low-income countries, lower-middle-income countries, and Small Island Developing States. Broad triggers can accommodate both emerging risks and innovative approaches introduced by other stakeholders. Furthermore, a trigger that can address any crisis is simpler to price because it responds to the same factors (the timing of cash flows) that investors currently consider when assessing credit risk. Because this approach is more familiar to markets, it is likely to gain market acceptance more easily.

Vulnerabilities differ among issuers due to geographic variations and will also change over time in response to geopolitical shifts, climate change, and possibly unforeseen factors that reshape the global risk landscape. From an issuer's perspective, broad triggers offer the flexibility to integrate market instruments into tailored disaster risk management strategies, which may also include catastrophe bonds, risk pooling, and other types of insurance to mitigate the economic impact of catastrophic events.

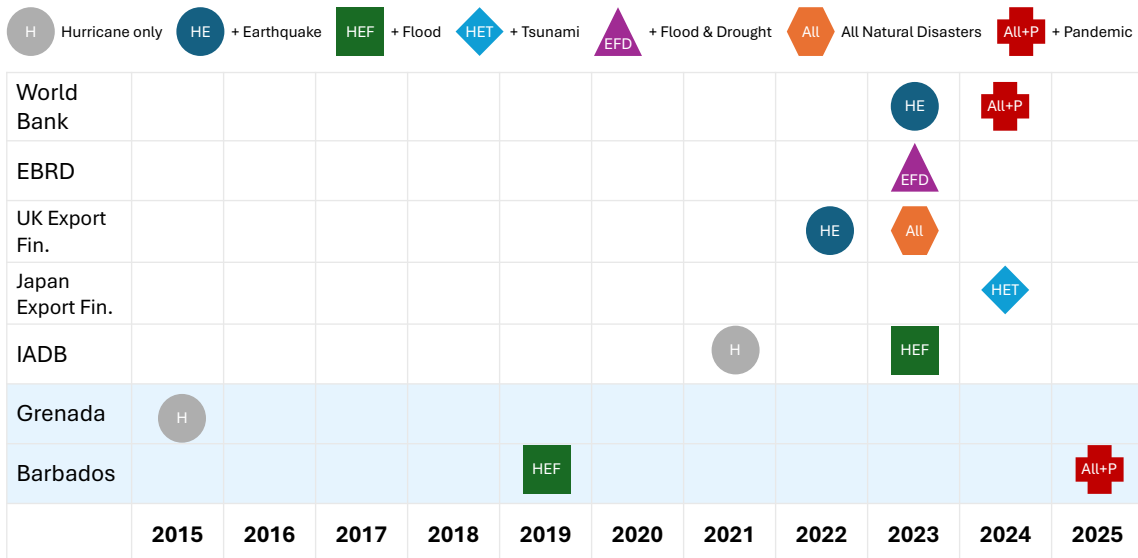
A framework centered on event-specific debt-pause triggers risks being overly complicated, fragmented, and less likely to scale effectively, potentially diluting any impact. Most countries eligible for CRDCs under the World Bank framework, for example, do not have outstanding market debt.³ However, vulnerability to exogenous shocks is evident across a wide range of country groupings, including small island developing states (SIDS), low-income countries (LICs), and lower-middle-income countries (LMICs), which encompass many countries with outstanding market debt. By reducing the trigger's dependence on specific geographical features, we believe the universe of countries that can potentially utilize pause clauses will expand, enhancing their market relevance.

³ Currently, only six countries in the EMBIG overlap with the list of countries eligible for the World Bank CRDCs. Most countries eligible under World Bank criteria are SIDS that do not have debt traded in international capital markets.

Context and Evolution of Debt Pause Terms

CRDCs were initially adopted on a very limited basis, with early contracts focusing narrowly on specific natural disasters and being constrained by secondary threshold tests, which limited scalability. Over time, multilateral development banks expanded their scope to cover broader crisis events, such as earthquakes and pandemics, and eliminated restrictive thresholds, making the clauses more practical for wider use. A key market-based innovation was introduced in Barbados’ 2019 restructuring. Barbados included a debt pause provision linking the threshold for triggering the natural disaster clause to differentiated catastrophe insurance payouts, depending on the type of natural disaster (hurricane, flooding, or earthquake). As the range of events covered by the clause increased, investors requested the addition of a declination option. This option was meant to provide robust creditor protection, prevent misuse of the clause, and address moral hazard concerns. For investors, the inclusion of broader triggers along with a declination mechanism offers a more sustainable framework, improving recovery prospects, synchronization, and scalability across different issuers.

CRDC Adoption Timeline 2015-2025



Well-designed Contractual Provisions to Operationalize a Pause

Several features in the design of debt pause mechanisms can ensure predictable operation and address concerns related to abusive or opportunistic deployment of a debt pause:

1. A requirement that either a national emergency declaration has been made, and is in full force and effect, or the Issuer has issued a public statement confirming the application to the IMF for emergency financing, before a debt pause request may be submitted.
2. A requirement that the issuer hold a global conference call with investors to explain the declaration of national emergency, outline the request for a debt pause, and present any supporting documentation.⁴
3. A “Trigger Synchronization Requirement” requires the issuer to demonstrate that it has invoked or will invoke provisions similar to a debt pause across the issuer’s other creditor groups. This provides assurance that a debt pause request will supply credit-supportive liquidity relief and sufficient fiscal space to support the country’s economic recovery.
4. A bondholder “Declination Option” helps discourage bad faith requests for a debt pause by providing creditors with the right to decline a deferral request, subject to a bondholder vote in which greater than 50% of holders elect to decline, a safeguard that credit rating agencies have noted can support a more balanced assessment of the clause.
5. An alternative, semi-automatic trigger allows the pause to activate when a World Bank GRADE assessment confirms a clearly severe shock (damage $\geq 15\%$ of GDP), in which case the declination option does not apply. This pathway balances investor protection and issuer needs by relying on objective external verification while confining automatic activation to large, verifiable crisis events with other safeguards still in place.
6. Preservation of claim: investors will retain their full contractual claims, 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.
7. A provision that deferred amounts accrue an additional 200-basis-point margin over the coupon if an issuer defaults or restructures within 36 months after a pause, modestly enhancing investor recoveries in a post-default scenario while discouraging misuse of the clause as a bridge to default.
8. Enhanced transparency and updated contracts can improve the instrument’s expected value, reducing uncertainty during a crisis and, when necessary, promoting more orderly restructuring.

The Declination Option: Essential Creditor Protection for Broad Debt Pause Mechanisms

A declination option is an essential safeguard for any private-sector creditor subject to a potential debt pause. It provides a clearly defined and contractually enforceable process to prevent the issuer from using the debt pause mechanism in an opportunistic or unjustified manner. Its inclusion in Barbados’ recent new issuance illustrates its importance as a foundational component of market-clearing, pause-eligible sovereign debt transactions. Similarly, official sector lenders reserve the right to reject an issuer’s request for deferral in their lending that includes CRDCs. This process begins when an issuer declares an emergency

⁴ The LC BHWG will publish a set of “Trigger Request Guidelines” to outline broad expectations from the private sector in terms of the types of events that might lead to a pause request, contextual information issuers may want to provide to accompany the request, etc.

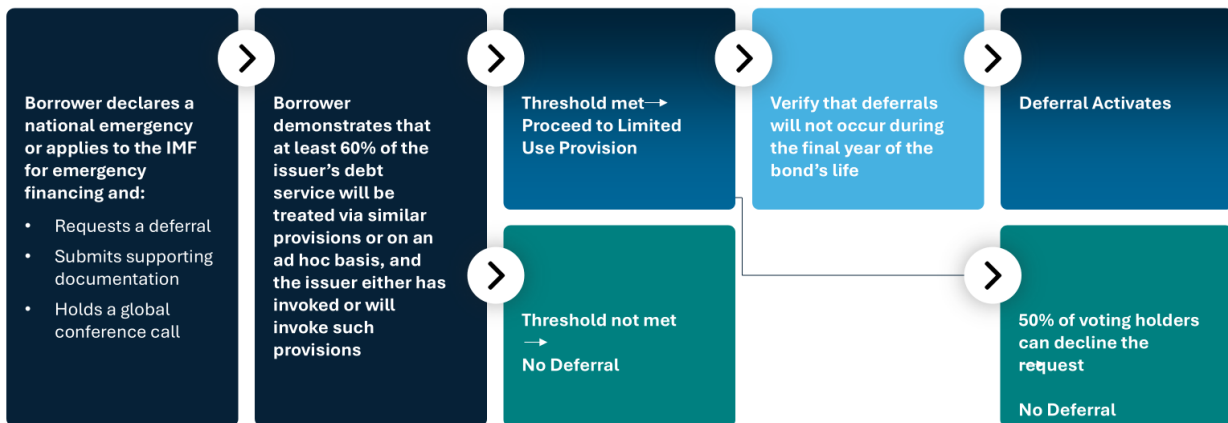
and formally requests a deferral. Official lenders retain the right to approve or reject these requests through a formal “Yes” or “No” response to the issuer’s submission.

The structural importance of the declination option becomes particularly evident when considered alongside the intentionally broad scope of qualifying trigger events. Rather than limiting debt pause activation to specific, predefined emergencies, like natural disasters of certain magnitudes, the framework deliberately maintains flexibility to accommodate “a wide variety of crisis events,” including climate, health, conflict, and macroeconomic shocks. This approach, while beneficial for issuer resilience and market scalability, necessarily requires robust creditor protections to prevent misuse. Without this mechanism, creditors lending under broad trigger frameworks would face unacceptable risk, given the potential for issuers to invoke payment deferrals in situations that do not constitute genuine emergencies. The declination option also provides operational flexibility, which is essential to making pause clauses work in practice. For example, the declination option makes self-certification of the various conditions precedent to a pause, including the synchronization requirement, much more feasible by protecting against unjustified use of the clause. Absent this safeguard, investors would likely demand much stricter independent verification processes and infrastructure, including cumbersome cross-creditor synchronization checks, which would meaningfully constrain the functionality and ultimate impact of pause clauses. It has therefore been welcomed by rating agencies as strengthening the clause’s risk controls. The declination option is the key operational feature that enables broad debt pause mechanisms to work for both the debtor and the creditor.

The Primary Trigger Pathway for Large Shocks

To request a pause, an issuer must declare a national emergency or apply for an IMF emergency facility or similar, submit a formal pause request with supporting documentation, hold a global investor call, and demonstrate synchronized treatment of most other eligible external creditors.

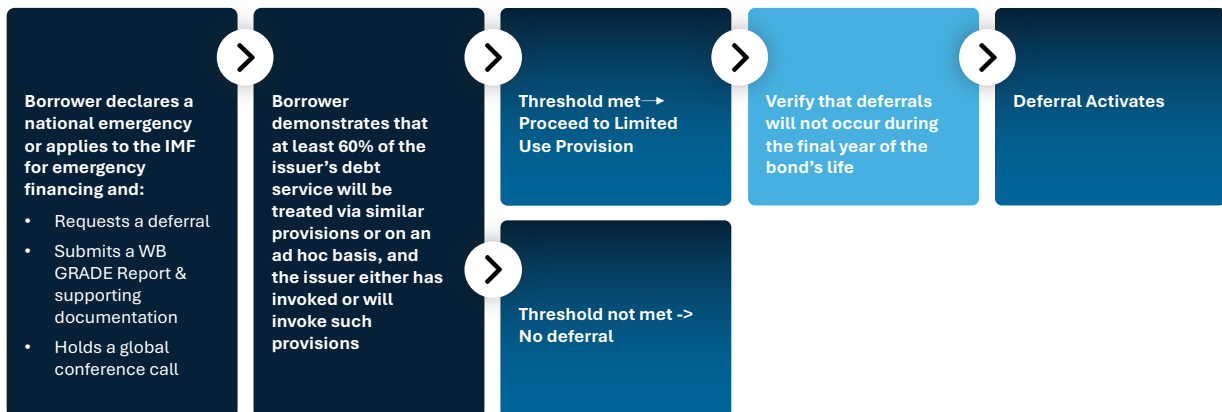
DEFERRAL REQUEST & BONDHOLDER DECLINATION MECHANICS



A Second Semi-Automatic Trigger Pathway for Large, Verifiable Shocks

There is an alternative way for issuers to activate the debt pause clause when they experience a major shock that can be verified by a rapid damage assessment from the World Bank. A World Bank GRADE assessment provides a rapid, methodologically grounded estimate of economic damage based on robust standardized disaster-loss methodologies. Issuers may submit a World Bank GRADE report to bondholders, noting that the World Bank has no obligation to conduct the assessment or to publish the report. If the GRADE report shows damage of at least 15% of GDP and the issuer has provided the other required certifications, the pause clause can be triggered automatically. Issuers may still request a payment pause without a GRADE report; if no report is available, or if the assessed damage is below 15% of GDP, they may nonetheless seek a pause. The key difference between these two pathways is that when a GRADE report confirms damage of 15% of GDP or more, bondholders cannot use the declination option. Because the GRADE pathway is confined to clearly severe events and operates alongside other safeguards, such as the one-time use limit and the synchronization requirement, the risk that automatic activation is used for marginal or opportunistic cases is, for all practical purposes, eliminated.

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



Transparency Improvements to Ensure Market Confidence

Beyond the contractual provisions that operationalize the pause itself, issuers must commit to transparency in information sharing. Bond pauses will require credible assurance that a predetermined portion of other debts will undergo similar pauses, necessitating disclosure of at least the high-level terms of these debts. Recognizing that some issuers may require time and technical assistance to implement the transparency requirements associated with the debt pause clause, our proposal provides issuers with the flexibility to phase in the enhanced disclosure requirements over 36 months. The Emerging Markets Investors Alliance

(EMIA) has prepared a set of very specific investor relations and transparency clauses⁵ that can be included in bond issuances with debt pause clauses and phased in if needed by issuers. See Appendix A for a summary of the transparency clauses. We believe enhanced transparency will help:

- **Improve risk assessment and pricing.** Complete and accurate debt information enables better-informed investment decisions, leading to more efficient market pricing and a stronger partnership between countries and creditors.
- **Reduce borrowing costs over time.** Research⁶ indicates improved transparency is associated with lower bond spreads, potentially enhancing returns for investors, while reducing the cost of capital for issuers.
- **Protect against “hidden debt” surprises.** Over the past decade, the market has experienced infrequent but highly impactful “hidden debt surprises” that have rapidly eroded market confidence in a country, its credit metrics, and the viability of its development plans. Deferring debt payments in a “hidden debt” scenario would be extremely damaging for market credibility. A country-creditor understanding on the importance of transparency reduces the risk of such surprising and damaging revelations.
- **Constitute a public good.** By making bonds with pause clauses more analytically robust and resilient instruments over time, enhanced disclosure requirements provide civil society with a tool for visibility and accountability.

Implementing Debt Pause Clauses

Think Big

Debt pause architecture will prove most powerful when applied universally across a country’s debt stack. Partial implementation may pose several challenges, including: 1) the potential creation of additional creditor classes for future restructurings, 2) possible intercreditor issues that could arise if non-debt pause bondholders receive payments during a future crisis while debt pause bondholders do not, and 3) the reality that a gradual implementation of a debt pause in a single bond instrument would not have a significant financial impact, as suspending payments on an individual bond typically will not provide meaningful liquidity relief to a country in crisis. Therefore, we encourage issuers to explore various implementation strategies that could accelerate their ability to take advantage of pause clauses, including the new issue market, liability management exercises, and other market-oriented approaches such as consent solicitations and debt exchanges specifically crafted to enable the conversion of non-pause clause debt into debt that includes a pause clause, along with the corresponding contractual terms we support (effectively creating a “debt for resilience” swap). The London Coalition’s Bondholder Working Group has explored the cost efficiency and effectiveness of these proposed pathways and believes that workable solutions exist for issuers.

⁵ See “Model Clauses for Transparency Covenants” at: <https://www.emia.org/sites/default/files/2025-07/Model%20Clauses%20for%20Transparency%20July%202025.pdf>

⁶ IMF Working Papers 2017, 074; The Effects of Data Transparency Policy Reforms on Emerging Market Sovereign Bond Spreads <https://doi.org/10.5089/9781475589603.001>

Conclusion

A Forward-Looking Investment Approach

As emerging market debt evolves as an asset class, investors have both economic incentives and practical reasons to support the use of debt pause clauses in exceptional circumstances and to advocate for improved transparency standards, thereby fostering trust and confidence in the markets. Implementing these features could establish more coherent and predictable crisis response mechanisms, bolstered by reduced information asymmetries, and ultimately support more stable and efficient markets that benefit both issuers and investors.

Rather than viewing these innovations as concessions to issuers, forward-looking investors should recognize them as valuable enhancements to the risk-return profile of emerging market bonds. By creating more resilient debt structures and information ecosystems, debt pause clauses can help prevent costly defaults while supporting continued market access for issuers—a genuine win-win that aligns with the long-term interests of the investment community. We are confident that this combined approach will enjoy widespread investor support.

The Bondholder Working Group looks forward to collaborating with potential issuers, their advisors, and other stakeholders to discuss the proposal and implementation options in more detail.

Appendix A

Summary of EMIA Transparency Clauses

EMIA's transparency clauses, designed for inclusion in sovereign bond contracts, aim to enhance openness, accountability, and investor trust by requiring sovereign issuers to disclose key information related to indebtedness. Below is an overview, with proposed/flexible timelines:

KEY REQUIREMENTS

1. Investor Relations (IR) Setup (Within 12-24 months of bond issuance)

- Appoint an IR Official to manage investor communications, following the Institute of International Finance (IIF) best practices.
- Create a public, bilingual (local language and English) IR website with debt details, regulatory filings, a search function, investor registration, FAQs, and archived investor calls, consistent with IIF best practices.

2. Semi-Annual Investor Calls

- Host investor update calls with senior officials (e.g., from the finance ministry or central bank) to discuss political, economic, and debt developments, consistent with IIF best practices.
- Allow investor questions, and archive calls and investor presentations on the IR website.

3. IMF and World Bank Reporting

- Share IMF Article IV and financing program reports (from two years before issuance onward) on the IR website within 30 days of bond issuance.
- Submit debt data to the World Bank's Debtor Reporting System (DRS) as required.

4. IMF Data Standards (Within 24-48 months)

- Subscribe to the IMF's Special Data Dissemination Standard (SDDS) and, later, SDDS Plus to publish economic and financial data.

5. Extractive Industries Transparency (Timeline varies)

- *If applicable*, engage with the Extractive Industries Transparency Initiative (EITI) to become an EITI-compliant country.

6. Debt Disclosure (Within 60 days of first quarter, then every six months)

- Publish detailed debt information (e.g., lender, amount, interest rates, repayment terms) on the IR website.

- For debts with confidentiality clauses, seek lender consent to share key details, at least at high level of aggregation.
- Ensure any future confidentiality agreements allow public sharing of debt information at least at high level of aggregation.

7. Optional SPO Verification (Annually)

- Option to hire a Second Party Opinion (SPO) provider to verify compliance with these clauses to strengthen pause request notice.
- Cooperate with the IIF for inclusion in their Investor Relations and Debt Transparency Reports.

ENFORCEMENT

Non-compliance may be flagged in the annual SPO report if elected, but no direct penalties or remedies apply, encouraging cooperation without punitive measures.