

**IMPORTANT NOTICE**

**This Term Sheet has been prepared in connection with Climate Resilient Debt Clauses ("CRDCs") for use in sovereign bonds. Whilst every care has been taken in the preparation of this Term Sheet and the associated CRDCs and pandemic clauses (the "Clauses"), no representation or warranty is given by any entity, any group (whether or not having separate legal personality) or any member of any entity or group referred to in this Term Sheet or the accompanying Chair's Remarks (referred to collectively as 'Relevant Persons'):**

- **as to the suitability of the Term Sheet and the Clauses for any particular transaction**
- **that this Term Sheet and Clauses will cover any eventuality**
- **as to the accuracy or completeness of the contents of this Term Sheet, the Clauses or related Chair's Remarks.**

**No Relevant Person is liable for any losses suffered by any person as a result of any contract incorporating the Clauses or which may arise from the presence of any errors or omissions in this Term Sheet, the Clauses or the Chair's Remarks and no proceedings shall be taken by any person in relation to such losses. Individual parties should also seek expert advice in all relevant areas (including in relation to tax and accounting effects).**

**For the avoidance of doubt, this Term Sheet, the Clauses and the Chair's Remarks are in a non-binding, specimen form. The intention is for the Term Sheet to be used as a starting point for negotiation. Individual parties are free to depart from its terms and should always satisfy themselves of the regulatory and rating implications of its provisions.**

## **INDICATIVE VOLUNTARY HEADS OF TERMS<sup>1</sup>**

### **CLIMATE RESILIENT DEBT INSTRUMENTS** **("CRDI BONDS")**

*The following overview is qualified in its entirety by, and should be read in conjunction with, the more detailed information set out in the Terms and Conditions<sup>2</sup> of the relevant CRDI Bonds.*

<b>ISSUER<sup>3</sup>:</b>	[Insert name of Sovereign]. <sup>4</sup>
<b>CRDI BONDS:</b>	[Insert Currency and Amount] [•] per cent. [fixed/floating] rate Bonds due [•] 20[•], linked to [Deferral Event(s)].
<b>ISSUE DATE:</b>	[•].
<b>CURRENCY:</b>	[•].
<b>FORM OF THE BONDS:</b>	The Bonds will be issued in global [registered/bearer] form and cleared through [the Depository Trust Company/Euroclear and Clearstream].
<b>ISSUE PRICE:</b>	[100]% of the Principal Amount.
<b>DENOMINATION:</b>	The Bonds will be issued in minimum denominations of [•] and integral multiples of [•] in excess thereof.
<b>STATUS:</b>	The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer. The Bonds rank, and will rank, equally among themselves and with all other unsubordinated and unsecured borrowed money of the Issuer; provided, however, that, consistent with similar provisions in the Issuer's other indebtedness, this provision shall not be construed so as to require the Issuer to pay all items of its indebtedness rateably as they fall due. The due and punctual payment of the Bonds and the performance of the obligations of the

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<sup>1</sup> **Note:** Draft prepared by HM Treasury and Clifford Chance LLP for by the Private Sector Working Group – CRDC Sub-Group.

<sup>2</sup> **Note:** To be prepared by the transaction parties at the time of issue of the relevant CRDI Bonds.

<sup>3</sup> **Note:** The general scope for the applicable countries is set out in the accompanying Chair's Summary, with the features contained herein considered appropriate for low-income and Small Island Developing States.

<sup>4</sup> **Note:** This term sheet is drafted on the basis that the sovereign is the Issuer. To the extent that the issuer could be another entity, for example, a state-owned entity but with a sovereign guarantee the term sheet can be updated accordingly.

Issuer with respect thereto are backed by the full faith and credit of the Issuer.

*[Status and ranking to be drafted to meet the requirements of individual issuer but in line with ICMA's enhanced pari passu clause disavowing the rateable payment interpretation.]*

**INTEREST RATE:** [•] per cent. [fixed/floating].

**INTEREST AMOUNT:** The Bonds will bear interest at the Interest Rate on the Principal Amount from time to time.

**INTEREST PAYMENT DATES:** Interest will be payable on the Bonds [quarterly/semi-annually] in arrears on the [•],[•],[•] and [•] in each year, subject to the deferral of payments described below. [If any such date is not a Business Day, the applicable payment shall be made on the immediately succeeding Business Day].

**PRINCIPAL AMOUNT:** The initial Principal Amount of the Bonds is their face amount on issuance. The Principal Amount may be increased through a further fungible issuance of the Bonds by the Issuer.

**PRINCIPAL PAYMENTS AND MATURITY DATE:** The Principal Amount of the Bonds shall be repaid in full on [•].

**DEFERRAL OF PAYMENTS<sup>5</sup>:** Following the occurrence of any Deferral Event subject to the Trigger Conditions being satisfied, the Issuer may, by following the Deferral Procedure for the Trustee and the Deferral Procedure for the Bondholders, elect to trigger the Deferred Payment Provision.

**"Deferral Claim"** means *[the defined term will reflect the ability of the Issuer to defer one or more payments otherwise falling due under the Bonds following the occurrence of a Deferral Event]*.

**"Deferral Event"** means the occurrence of any of the following *[delete as appropriate]*<sup>6</sup>:

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<sup>5</sup> **Note:** These deferral provisions constitute the Climate Resilient Debt Clauses, the CRDCs. The deferral mechanism could be contemplated for use 1-3 times with a preference being 2 times depending on the length of the relevant instrument, with longer maturity instruments potentially having a higher limit on frequency of use.

<sup>6</sup> **Note:** Certain trigger events will be more suitable for specific issuers and can be developed on a case-by-case basis. The important element is that such triggers are well defined and observable and have good correlation to the risk intended to be covered. Further Deferral Events can also be considered.

- (a) Drought Event<sup>7</sup>;
- (b) Earthquake Event<sup>8</sup>;
- (c) Extreme Flooding Event<sup>9</sup>; and
- (d) Extreme Weather Event<sup>10</sup>.

"**Deferral Procedure for the Bondholders**" means the Issuer providing, at its own expense, a notice to the holders of the Bonds as provided in the Notices provision of the terms and conditions of the Bonds, describing in reasonable detail the particulars of the applicable Deferral Event giving rise to the right to make such Deferral Claim.

"**Deferral Procedure for the Trustee**" means the Issuer delivering to the Trustee<sup>11</sup>, within [•] weeks of the occurrence of the applicable Deferral Event, the following documents:

(A) a certificate from the Issuer stating that the Issuer is making a Deferral Claim, describing in reasonable detail the particulars of the applicable Deferral Event giving rise to the right to make such Deferral Claim and confirming the matters set out in paragraphs (ii) and (iii) of the definition of Trigger Conditions;

[(B) a copy of any press release from the relevant international organisation which has given rise to the applicable Deferral Event;]

"**Deferred Payment Provision**" means [*this definition will be used to describe the terms of the deferral e.g. deferred interest amounts are added to principal, either to be repaid at maturity, repaid over a specified period (e.g. three years) following*

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<sup>7</sup> **Note:** Drought Event could be defined by reference to existing regional risk pools, for example the African Risk Capacity ("**ARC**") or the Pacific Catastrophe Risk Insurance Company ("**PCRIC**") or designed and tailored parametric triggers.

<sup>8</sup> **Note:** Earthquake Event could be defined by reference to existing regional risk pools, for example the PCRIC or the Caribbean Catastrophic Risk Insurance Facility ("**CCRIF**") or designed and tailored parametric triggers.

<sup>9</sup> **Note:** Extreme Flooding Event could be defined by reference to existing regional risk pools, for example the ARC (currently in development), PCRIC (currently planned from end-2022), CCRIF (by reference to high rainfall) or the Southeast Asia Disaster Risk Insurance Facility ("**SEADRIF**").

<sup>10</sup> **Note:** Extreme Weather Event could be defined by reference to tropical cyclone- or hurricane-linked regional risk pools, for example the ARC, PCRIC or CCRIF.

<sup>11</sup> **Note:** Trustee or other similar party depending on bond structure.

*the end of the deferral period or repaid pro rata over the remaining life of the bond]*<sup>1213</sup>

**"Trigger Conditions"** means:

(i) [•].

[Following the making of a Deferral Claim, the Issuer shall use commercially reasonable efforts to provide the Trustee with summary reports from time to time to keep the Trustee informed of the progress of its relief and recovery programs, and, whenever available, the economic loss assessment consequential upon the occurrence of the applicable Deferral Event.]

**EARLY REDEMPTION OF THE BONDS:** *TBD.*

**EVENTS OF DEFAULT:**

Each of the following events is an Event of Default:

- (a) the Issuer fails to pay principal or interest on any Bond (subject to appropriate grace periods);
- (b) the Issuer is in default in the performance of any other covenant, condition or provision under or in respect of the Bonds or the Indenture and continues to be in default for a time period to be agreed after written notice has been given to the Issuer by [any holder] [the Trustee];
- (c) cross-default;<sup>14</sup>
- (d) the Issuer declares a moratorium with respect to the Bonds, including where such moratorium forms part of a general moratorium over all or part of the Issuer's External Indebtedness<sup>15</sup>;
- (e) the Issuer rescinds, repudiates or expropriates, (or purports to do so) any of the

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<sup>12</sup> **Note:** For example, in the Barbados 2029 bonds, deferred interest is capitalised and the resulting principal balance is repaid in equal semiannual amortisations between the final deferral and maturity dates. The NPV impact would need to be considered.

<sup>13</sup> **Note:** Deferral period could be in 1-2 year range.

<sup>14</sup> **Note:** Cross-default/cross-acceleration to reflect equivalent provisions in other bonds of the Issuer by reference to External Indebtedness or equivalent as in other bonds of the Issuer.

<sup>15</sup> **Note:** Definition to reflect equivalent or similar definitions in the other bonds of the Issuer.

Bonds or its obligations arising under the Bonds or otherwise declares invalid its obligations under the Bonds;

- (f) the Issuer ceases to be a member in good standing or becomes ineligible to use the resources of the IMF; and
- (g) any applicable order, decree, enactment, treaty or regulation prevents the Issuer from performing its obligations under or in respect of the Bonds.

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding shall, give notice to the Issuer that each Bond is, and shall forthwith become, immediately due and payable if any of Event of Default occurs.

**"External Indebtedness"** means, all Indebtedness [payable in any currency other than the currency of [•] that is not (i) issued pursuant to agreements or evidenced by instruments that expressly submit the resolution of all disputes to the exclusive jurisdiction of the courts of [•] or (ii) governed by [•] law.]

**"Indebtedness"** means, any borrowed money in the form of bonds or similar debt instruments (and whether linked to any index or not) issued or guaranteed by the Issuer which are, or are capable of being and intended to be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over the counter securities market.

*[These are sample Events of Default. Events of Default in these Bonds should reflect the events of default customary in the Issuer's other bonds.]*<sup>16</sup>

**NEGATIVE PLEDGE:**

So long as any Bond remains outstanding, the Issuer shall not create or permit to subsist any mortgage, pledge, lien or charge upon any of its present or future revenues, properties or assets to secure any External Indebtedness, unless the Bonds shall also be secured by such mortgage, pledge, lien or charge equally and rateably with such Relevant

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<sup>16</sup> **Note:** Other events of default which are typically included: invalidity, significant judgment or arbitral award against the country being issued in respect of which no appeal or application to set aside may be made.

Indebtedness or by such other security (A) as the Trustee shall in its absolute discretion deem to be not materially less beneficial to the interests of the holders or (B) as may be approved by a resolution of the requisite majority of holders or written resolution of the holders.<sup>17</sup>

**INFORMATION COVENANTS:** [The Issuer shall supply to the Trustee, *inter alia*, within [•] Business Days of its being provided to the IMF, World Bank or [*insert any appropriate regional multilateral development bank*], any report or data provided as a supplement to the reports or data provided under paragraphs (ii) and (iii) above by the [•] (provided that the Issuer shall not be required to supply such report if it has been otherwise made publicly available in electronic form).]

**LISTING:** Yes.

**RATING:** Yes/*TBD*.<sup>18</sup>

**AGGREGATED COLLECTIVE ACTION CLAUSES:** ICMA's template Standard Aggregated CACs to be included permitting aggregation with other bonds of the Issuer which include Aggregated CACs<sup>19</sup>.

**RESERVED MATTERS<sup>20</sup>:** These will, *inter alia*, include resolutions that would:

- (a) change the due date for the payment of the principal or any instalment of interest on the Bonds, (other than in accordance with the express terms of the Bonds);
- (b) reduce the Principal Amount (other than in accordance with the express terms of the Bonds) of the Bonds;
- (c) reduce the Interest Rate on the Bonds;

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<sup>17</sup> **Note:** Scope of negative pledge may vary issuer to issuer. It should reflect the negative pledge provision in the Issuer's other bonds.

<sup>18</sup> **Note:** Consider the deferral mechanism in the context of credit ratings and the CDS market.

<sup>19</sup> **Note:** It is envisaged that, in any subsequent consent solicitation/exchange offer activating Aggregated CACs, all amounts then outstanding under the bonds would be capable of aggregation by the Issuer in the normal manner.

<sup>20</sup> **Note:** For approval or consent through any one of the modification methods included in the Aggregated CACs.

- (d) change the currency in which any payments are payable and the place of payment;
- (e) change certain definitions (including those used in the aggregated CACs and that of Reserved Matters) or certain other provisions, including majorities required, in the voting arrangements;
- (f) change the disenfranchisement provisions;
- (g) change the ranking of the Bonds;
- (h) authorize and/or instruct the Trustee, on behalf of all holders of the Bonds, to exchange or substitute all the Bonds for, or conversion of all Bonds into, other obligations or securities of the Issuer or any other person;
- (i) change the Events of Default;
- (j) change the governing law, jurisdiction provisions and waiver of immunities provisions;
- (k) change the definition of "Deferral Claim", "Deferral Event", "Deferred Payment Provision", "Trigger Conditions" or [•];<sup>21</sup> or
- (l) authorize the exchange of the Bonds in a manner which results in inequitable treatment of the holders.

**TAXATION:**

All payments by the Issuer on the Bonds will be paid free and clear of any withholding taxes or other applicable taxes in the jurisdiction of the Issuer.

**SELLING RESTRICTIONS:**

*[Depending on type of offering].*

**DOCUMENTATION AND STRUCTURE:**

*Consider a trust structure.* The Bonds will be constituted by a Trust Deed/Indenture which will be available for inspection at the offices of the Trustee.

**NOTICES:**

Notices will be given in accordance with the rules of the stock exchange where the Bonds are listed and via the Depositary Trust Company in customary fashion. [Notices will also be published on the

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<sup>21</sup> **Note:** Add any elements related to the operation of the CRDCs.



website of the Ministry of Finance of the Issuer at [•]].

**GOVERNING LAW:**

[English<sup>22</sup>/New York] law<sup>23</sup>.

**SUBMISSION TO  
JURISDICTION/  
ARBITRATION:**

*TBD.*

[To the extent allowed by law, the Trustee may also take proceedings in any other court of competent jurisdiction].

**SERVICE OF PROCESS:**

The Issuer will appoint a process agent in each jurisdiction in which the Issuer expressly submits to jurisdiction.

**WAIVER OF IMMUNITY:**

*Full waiver of sovereign immunity, to be tailored to country specific context.*

**CLEARING SYSTEM:**

[The Depository Trust Company/Euroclear and Clearstream].

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<sup>22</sup> **Note:** To reflect equivalent in other bonds of the Issuer.

<sup>23</sup> **Note:** Or such other law as customarily governs the Issuer's debt issuances.

## ANNEX

### Additional Pandemic Event Resilient Debt Clauses

*The following pandemic related provisions may be considered in respect of low-income countries, Small Island Developing States or other particularly vulnerable developing countries. These could be added in addition to any CRDCs or on a stand alone basis.*

"**Deferral Event**" means the occurrence of any of the following:

- (a) Pandemic Event,
- (b) *Other*<sup>24</sup>.

"**Pandemic Event**" means the occurrence of the following sequence of events after the Issue Date:

- (a) the World Health Organisation (the "**WHO**")<sup>25</sup> declares a Public Health Emergency of International Concern (as defined in the International Health Regulations of the WHO) with respect to any disease that grants such disease phase 6 status, or any other categorisation as the WHO may use to describe an active ongoing pandemic from time to time (a "**PHIO**") (excluding the continuation of the COVID-19 pandemic in the form of the current variants of COVID-19 existing as of the Issue Date);
- (b) the [*Sovereign*] or any other competent political or regulatory sub-division thereof declares a state of public health emergency with respect to any PHIO declared under (a) above; and
- (c) either:
  - (i) the occurrence of a Real GDP contraction over [two consecutive quarters], which in aggregate results in a contraction of at least [•]% of Real GDP relative to [the same two quarters in the previous fiscal year (based on estimated realized GDP at constant prices for the current year and provisional realized GDP at constant prices for the prior year)], as published by [•]<sup>26</sup> and reported to at least [two] of: the IMF, the World Bank and [*insert any appropriate regional multilateral development bank*]); and/or
  - (ii) the events described in paragraphs (a) and (b) above result in the [*Sovereign*] approving and enacting an increase in governmental spending (that is not rescindable) (the "**Pandemic Increased Spending**") directly relating to the relevant PHIO (and the measures taken by the [*Sovereign*] in response thereto) that is at least equal to U.S.\$[•].

For the purposes of paragraph (c)(ii) above, any reduction in budgeted government spending as a result of payments due under these [terms and conditions/Conditions] being deferred as a

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<sup>24</sup> **Note:** See CRDCs.

<sup>25</sup> **Note:** Pandemics are declared by the World Health Organisation.

<sup>26</sup> **Note:** Insert appropriate statistical agency, ministry or central bank of the sovereign.

result of a Pandemic Event occurring shall be disregarded when determining whether Pandemic Increased Spending has been approved and enacted.

**"Real GDP"** means the gross domestic product of [*Sovereign*] at constant prices as adjusted for inflation.