

Primary Dealer in Danish Government Bonds

Contract

The Danish Government Debt Management at Danmarks Nationalbank, herein subsequently referred to as Government Debt Management, agent of the Ministry of Finance, and <name of institution>.

agree

- ◆ The institution referred to on page 2 of this contract has been accorded the status Primary Dealer in Danish government bonds.
- ◆ Market making of Danish Government bonds takes place on the electronic trading platforms, which has been elected by the primary dealers in Danish government bonds and T-bills. The governing framework of the elected platforms is an integral part of the primary dealer contract.
- ◆ This contract becomes effective on 1 January 2011 and expires on 31 December 2011, cf. Article 5.1.

Agreement

The underlying agreement is signed (in duplicate) between:

The Central Government, represented by Government Debt Management,

.....
(Date and signature)

.....
(Date and signature)

.....
(Name)

.....
(Name)

.....
(Function)

.....
(Function)

and

.....
(Legal entity)

Represented by:

.....
(Date and signature)

.....
(Date and signature)

.....
(Name)

.....
(Name)

.....
(Function)

.....
(Function)

Primary Dealer Conditions in Government Bonds

1. Terminology

The following terms in this agreement have the meanings defined herein:

Primary Dealer: An institution which is party to a Primary Dealer contract with Government Debt Management.

Primary Dealer contract in Danish government bonds:

Contract to which Government Debt Management, on behalf of the Danish Ministry of Finance, and Primary Dealers in Danish government bonds are parties.

Primary Dealer Committee: Committee formed by Government Debt Management and Primary Dealers in Danish government bonds with the purpose of supporting liquidity and transparency in the Danish government bond market and to provide a forum for exchange of information and resolution of problems. A representative from The Danish Securities Dealers Association participates in the meetings with status as an observer. Meetings will be hosted and chaired by Government Debt Management, which will also provide the secretariat of this committee.

Market Operation Committee: Sub-group of the Primary Dealer Committee. The Market Operation Committee is used as a fast access to the primary dealer group. In case of exceptional market circumstances the Market Operation Committee can recommend changes to the quoting requirements. The final decision to change the market making requirements is formally taken by the Government Debt Management.

Market making: Quoting of two-way prices for government bonds for a period within 9:00 – 16:30 in accordance with the framework for market making defined by the Government Debt Management.

Government bonds: In this contract the term "government bonds" refers to Danish government bonds.

Government Funds: Comprise assets of the Social Pension Fund, the High technology foundation and the Preventive Measures Fund.

| | |
|----------------------|---|
| Governing framework: | The framework agreed upon by Government Debt Management and Primary Dealers as a supplementary governance of the chosen platforms. |
| Chosen platforms: | In this contract the term "chosen platforms" refers to the trading platform(s) used for market making in the secondary market for Danish government securities. The Primary Dealer Committees in bonds and T-bills evaluate the market infrastructure on an annual basis and elect the platform(s) used for market making for a period of one year at a time. |

2. Privileges of Primary Dealers

The Primary Dealers have the right to:

- 2.1. carry the title "Primary Dealer in Danish government bonds".
- 2.2. participate in Government Debt Management's openings of new government bond issues and subsequent auctions and tap-sale.
- 2.3. participate in Government Debt Management's buy-back and switch operations and be counterparts in transactions with the Government Funds, insofar as these operations can be conducted on the chosen platforms.
- 2.4. use the securities lending facilities of the central government and the Social Pension Fund as stipulated in the "Terms for the Central-Government's and the Social Pensions Fund's Securities Lending Facilities".
- 2.5. participate in meetings of the Primary Dealer Committee.
- 2.6. elect participants among the Primary Dealers to the Market Operation Committee.
- 2.7. advise and discuss with Government Debt Management developments in government debt markets.

The privileges do not apply to, and cannot be extended to, third parties.

3. Obligations of Primary Dealers

Primary dealers are required to:

- 3.1. be active counterparts in Government Debt Management's activities.
- 3.2. be market makers in the bond series with more than 13 months remaining maturity according to the governing framework.
- 3.3. quote two-way prices in the relevant securities within the timeframe 9.00-16.30 and in accordance with the framework for market making.
- 3.4. actively promote and increase awareness of Danish government bonds.

- 3.5. make every effort to support a well-functioning market, and to prevent occurrences of market failures, i.e. be obliged to generally display good code of conduct. Accordingly, Primary Dealers should abstain from activities that will result in market failures, and be obliged – within reason – to perform activities, which eliminate or reduce the risk of market failures.
- 3.6. display good code of conduct in the clearing and settlement of trades ensuring high settlement rates in the settlement institutions clearing trades. Similarly, good code of conduct is required in the use of the securities lending facilities of the central government and the Social Pension Fund.
- 3.7. regularly report to Government Debt Management on developments in financial markets and specific developments affecting Danish government bonds.
- 3.8. accept automatically transmitted reports to Government Debt Management from the elected platforms regarding their turnover of Danish government bonds and regarding their quotation of prices related to the market making obligation. Primary Dealers are invited to transmit reports to Government Debt Management on their turnover in Danish government bonds on other trading platforms. When Government Debt Management conducts reviews this information will among other issues be taken into consideration.
- 3.9. comply with the governing framework of the platforms.

4. Amendment of this contract and the supplementary governing framework

- 4.1. This contract may be amended if so agreed by the undersigned parties.
- 4.2. The governing framework and the Annexes of this contract may be amended by Government Debt Management after consulting with Primary Dealers.

5. Termination

- 5.1. Primary Dealer contracts expire on 31 December each year.
- 5.2. Government Debt Management may, at any time, cancel this contract with any Primary Dealer for a fixed period or altogether without any term of notice.
- 5.3. The Primary Dealer may cancel this contract with the Danish Government Debt Management 30 days after having given a written notice of termination.

6. Governing law

All legal disputes related to this contract shall be settled according to Danish law, and any lawsuit must be brought before the Maritime and Commercial Court (Sø- og Handelsretten) of Copenhagen.

Governing Framework: Issuance and buy-backs of Danish Government Bonds

On behalf of Ministry of Finance, Government Debt Management issues and buys back Danish government bonds. Issuance of Danish government bonds follows a strategy building on initial sale in relation to opening of new issues. Opening of new issues is conducted by an opening auction. The subsequent build-up can be conducted by both auctions and tap issuance.

Government Debt Management issues Danish government bonds considering:

- An expectation of strong interest and high demand among Primary Dealers for initial sale in relation to opening of new issues. This initial sale would under normal circumstances amount to at least DKK 5 billion;
- Underpinning an efficient market, where Government Debt Management's tap issuance activities are intended to having neutral market implications and without amplifying excessive market developments.

Auctions

Auctions are conducted via an auction facility in an issuance segment separate from the market making segments of the chosen platforms in the secondary market. Only Primary Dealers and Government Debt Management have access to the auction facility. Government Debt Management, in consultation with Primary Dealers, assesses the functioning of the auction facility on an ongoing basis. Government Debt Management may decide, after consulting with Primary Dealers, to amend the framework for auctions.

Tap issuance

Tap issuance are conducted in the market making segment of the chosen platforms, where Government Debt Management operates with similar technical status as either a market taker or market maker subject to market conditions.

Government Debt Management will, in consultation with Primary Dealers, evaluate and assess the functioning of the issuance scheme on an ongoing basis. Government Debt Management may decide, after consulting with Primary Dealers, to amend the framework.

Buy-back of bonds including activities of the Government Funds

Buy-backs of Danish government bonds including activities of the Government Funds are conducted on the chosen platforms, as stated in the Primary Dealer Contract. The transactions may be conducted via buy-back on tap, by auctions, buy-back facility or switch facility. When Government Debt Management buys back on tap, it will approach the market making segment as a market taker or market maker subject to market conditions.

Government Debt Management, in consultation with Primary Dealers, assesses the performance of Government Debt Management's buy-back operations, including activities of the Government Funds, on an ongoing basis. Government Debt Management may decide, after consulting with Primary Dealers, to amend the framework for buy-backs including activities of the Government Funds.

Opening of new issues

Initial sale in relation to opening of new issues is presently conducted in an issuance segment separate from the market making segments on MTSDenmark. Only Primary Dealers and Government Debt Management have access to the issuance segment.

Government Debt Management, in consultation with Primary Dealers, assesses the functioning of the issuance segment on an ongoing basis. Government Debt Management may decide, after consulting with Primary Dealers, to amend the framework for opening of new issues.

Clearing and settlement

Primary dealers have the choice of using VP Securities, Euroclear or Clearstream.

Government Debt Management's transactions with Danmarks Nationalbank

Government Debt Management may execute its transactions with Danmarks Nationalbank outside the chosen platforms.

Terms for the Central Government's and the Social Pension Fund's Securities Lending Facilities

Primary dealers have the right to use the securities lending facilities of the central government and the Social Pension Fund to which the participants are eligible. The purpose of the securities lending facilities is to supplement and strengthen market efficiency. Considering the functioning of the repo market, primary dealers shall make every effort to support a well-functioning market, and to prevent occurrences of unintended market failures. Information on the terms for Central-Government's and the Social Pension Fund's Securities Lending Facilities is given below.

The Central-Government's Securities Lending Facility

1. The lending facility applies to on-the-run government securities and government securities with benchmark status.
2. The lending facility can also apply to bonds eligible for lending through the Social Pension Fund's securities lending facility if the Social Pension Fund does not hold a sufficient amount of the bond.
3. The specific terms for lending in the individual government securities are published in the central-government's announcements concerning on-the-run issues.
4. For government bonds the lending facility is available for primary dealers in Danish government bonds.
5. For T-bills the lending facility is available for primary dealers in Danish T-bills.
6. In normal circumstances the maximum lending in bond series is DKK 4 billion and the maximum lending in all T-bills is DKK 10 billion. However, these limits may be raised in the event of abnormal price formation on the market for securities lending.
7. The fee is 0.2 per cent per year for securities lending of government bonds. The fee is 0.15 per cent per year for securities lending of T-bills.
8. The lending facility is available as buy-/sell-back transactions. Participants borrow in one buy-/sell-back transaction and lend (provide collateral) in another buy-/sell-back transaction.
9. The securities may be borrowed for a period from 1 to 5 trading days.
10. Transactions can be made during the day between 9.00 a.m. and 3.30 p.m., but should, as far as possible, be concluded before 2.00 p.m. (CET).
11. Lending in securities is granted in the order that requests to Danmarks Nationalbank are received from security dealers on the relevant day. The right to make discretionary allocations is reserved if deemed appropriate.
12. Danish government securities denominated in Danish kroner issued via VP Securities in series with an outstanding amount of at least DKK 3 billion are accepted as collateral.
13. A haircut of 2.5 per cent is applied to each buy-/sell-back transaction. Hence, the market price of the security lend by the central government is raised by 2.5 per cent and the market price of the security provided as collateral by the borrower is lowered by 2.5 per cent.

14. Settlement takes place on the following trading day. Transactions are settled as trading transactions in the VP Securities system.
15. In case settlement only succeeds for one of the buy-/sell-back transaction, be that the lending transaction or the collateral transaction as it may, borrowers are obliged to ensure immediate settlement of the failed transaction.
16. Government Debt Management may from time to time amend the terms and conditions applicable to the Central-Government's Securities Lending Facility to reflect market practice and ensure a well-functioning securities lending facility. Government Debt Management informs primary dealers at least one week prior to implementation of any change to the terms of the lending facility.
17. Any enquiries concerning securities lending transactions should be made to Danmarks Nationalbank, Market Operations, on tel. +45 3363 6752 or +45 3363 6736.

The Social Pension Fund's Securities Lending Facility

1. Lending is in all government bonds with more than 1 month remaining maturity of the type bullet loans in the Social Pension Fund's portfolio.
2. The lending facility is available to primary dealers in government bonds.
3. The fee is 0.2 per cent per year.
4. The lending facility is available as buy-/sell-back transactions. Participants borrow in one buy-/sell-back transaction and lend (provide collateral) in another buy-/sell-back transaction.
5. The securities may be borrowed for a period from 1 to 5 trading days.
6. Transactions can be made during the day between 9.00 a.m. and 3.30 p.m., but as far as possible should be concluded before 2.00 p.m. (CET).
7. Lending in securities is granted in the order that requests to Danmarks Nationalbank are received from securities dealers on the relevant day. The right to make discretionary allocations is reserved if deemed appropriate.
8. Danish government securities denominated in Danish kroner issued via VP Securities in series with an outstanding amount of at least DKK 3 billion are accepted as collateral.
9. A haircut of 2.5 per cent is applied to each buy-/sell-back transaction. Hence, the market price of the security lend by the central government is raised by 2.5 per cent and the market price of the security provided as collateral by the borrower is lowered by 2.5 per cent.
10. Settlement takes place on the following trading day. Transactions are settled as trading transactions in the VP system.
11. In case settlement only succeeds for one of the buy-/sell-back transaction, be that the lending transaction or the collateral transaction as it may, borrowers are obliged to ensure immediate settlement of the failed transaction.
12. Government Debt Management may from time to time amend the terms and conditions applicable to the Social Pension Fund's Securities Lending Facility to reflect market practice and ensure a well-functioning securities lending facility. Government Debt Management informs primary dealers at least one week prior to the im-

plementation of any change to the terms of the Social Pension Fund's Securities Lending Facility.

13. Any enquiries concerning securities lending transactions should be made to Danmarks Nationalbank, Market Operations, on tel. +45 3363 6752 or +45 3363 6736.