

Primary Dealer in Danish T-bills

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 T-bills.
- ◆ Market making of Danish Government T-bills 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 T-bills

1. Terminology

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

- Primary Dealer in T-bills: An institution which is party to a contract for Primary Dealers in T-bills with Government Debt Management.
- Contract for Primary Dealers in T-bills: Contract to which Government Debt Management, on behalf of the Danish Ministry of Finance, and Primary Dealers in Danish T-bills are parties.
- Primary Dealer Committee: Committee formed by Government Debt Management and Primary Dealers in T-bills with the purpose of supporting liquidity and transparency in Danish T-bills 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 in T-bills. The Market Operation Committee has the authority to determine if extraordinary market conditions, including technical problems of the trading system, prevail and normal market making should temporarily be suspended.
- Market making: Quoting of two-way prices for Danish T-bills for a minimum of 5 hours per day within 9:00 – 16:30 with a maximum spread and for minimum amounts defined by the Government Debt Management in consultation with the Primary Dealers.
- T-bills: In this contract the term "T-bills" refers to Danish T-bills
- 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 T-bills. 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 in T-bills

The Primary Dealers in T-bills have the right to:

- 2.1. carry the title of "Primary Dealer in Danish T-bills".
- 2.2. participate in Government Debt Management's T-bill auctions.
- 2.3. participate as counterparts in other activities of Government Debt Management in the T-bill segment.
- 2.4. use the securities lending facility of the central government according to the stipulation in the "Terms for the Central-Government's Lending Facilities for T-bills".
- 2.5. participate in meetings of the Primary Dealer Committee.
- 2.6. elect participants among the Primary Dealers in T-bills to the Market Operation Committee.
- 2.7. advise and discuss with Government Debt Management developments in the T-bill segment.

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

3. Obligations of Primary Dealers in T-bills

Primary Dealers in T-bills are required to:

- 3.1. be active counterparts in Government Debt Management's activities in the T-bill segment.
- 3.2. be market makers in T-bills with more than 1 month remaining maturity.
- 3.3. quote two-way prices in T-bills for a minimum of 5 hours per trading day starting 9.00 until 16.30.
- 3.4. actively promote and increase awareness of Danish T-bills.
- 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 in T-bills 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 facility of the central government.
- 3.7. regularly report to Government Debt Management on developments in financial markets and specific developments affecting Danish T-bills.
- 3.8. accept automatically transmitted reports to Government Debt Management from the elected platforms regarding their turnover of Danish T-bills and regarding their quoting of prices related to the market making obligation. Primary Dealers are invited to transmit reports to Government Debt Management on their turnover in Danish T-bills 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 concerning T-bills may be amended by Government Debt Management after consulting with Primary Dealers in T-bills.

5. Termination

- 5.1. Contracts for Primary Dealers in T-bills expire on 31 December each year.
- 5.2. Government Debt Management may, at any time, cancel this contract with any Primary Dealer in T-bills for a fixed period or altogether without any term of notice.
- 5.3. The Primary Dealers in T-bills 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 trading of T-bills

Auctions

On behalf of Ministry of Finance, Government Debt Management issues Danish T-bills. Treasury bills are usually issued at monthly auctions, which are normally held on the penultimate trading day of each month. The opening maturity of T-bills can be up to 12 months.

T-bills are presently issued on via an auction facility in an issuance segment separate from the market making segments of the chosen platforms in the secondary market. Government Debt Management will in advance of an auction announce a maximum amount to be issued at the auction. Bids shall be submitted in yields on the auction day. Normally, the ultimate deadline for submitting of bids will be 10:30 a.m. with the aim of subsequent announcement of the auction result taking place no later than 10 minutes after the deadline for submitting of bids.

A cut-off yield will be fixed on the basis of the bids received and the prevailing market conditions. Bids at or below the cut-off yield will be accommodated at the cut-off yield (uniform pricing). A pro-rata accommodation of bids at the cut-off yield may be made. An auction can be terminated without allotment.

Government Debt Management, in consultation with Primary Dealers in T-bills, assesses the functioning of the issuing segment on an on-going basis. Government Debt Management can decide that issuance and settlement take place in other ways.

In the event of unusual market conditions in the secondary market trading of Danish T-bills, Government Debt Management may issue additional T-bills by means of an extraordinary auction or by tap issuance directly in the secondary market at prevailing market prices at any time during trading days. Government Debt Management may also issue additional T-bills due to other reasons. For example this might happen if the outstanding amount in a T-bill series is considered too low or it might happen as part of the central government's liquidity management.

Market making

The Primary Dealers in Danish T-bills should observe the following obligations when inserting two-way quotes (in yields):

- ◆ Minimum quantity: DKK 100 million
- ◆ Maximum spread: 4 basis points

The proposals should be valid for a minimum of 5 hours per trading day between 9.00 and 16.30.

Clearing and Settlement

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

Terms for the Central Government's Lending Facilities for T-bills

Primary dealers in Danish T-bills will have the right to use the Central-Government's Securities Lending Facility for T-bills. The purpose of the securities lending facilities is to supplement and strengthen market efficiency. Considering the functioning of the repo-market, primary dealers in Danish T-bills shall make every effort to support a well-functioning market, and to prevent occurrence of intended market failures. Information on the terms for Central-Government's Securities Lending Facilities for T-bills" is given below.

The Central-Government's Securities Lending Facility for T-bills

1. The lending facility applies to all Danish T-bills.
2. The lending facility is available for primary dealers in Danish T-bills.
3. In normal circumstances 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.
4. The fee is 0.15 per cent per year for securities lending of T-bills.
5. 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.
6. The securities may be borrowed for a period from 1 to 5 trading days.
7. 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).
8. Lending in T-bills 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.
9. 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.
10. 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.
11. Settlement takes place on the following trading day. Transactions are settled as trading transactions in the VP Securities system.
12. 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.
13. Government Debt Management may from time to time amend the terms and conditions applicable to the Central Government's Securities Lending Facility for T-bills 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.

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