

Primary Dealer in Danish Government Bonds

Contract

The Danish Government Debt Management at Danmarks Nationalbank, agent of the Ministry of Finance, herein subsequently referred to as Government Debt Management, and the institution referred to on page 2 of this contract

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 have been elected by the primary dealers in Danish government bonds and T-bills.
- ◆ This contract becomes effective on 1 April 2017 and expires on 31 December 2017, cf. Article 5.1.
- ◆ As of the effective date 1 April 2017 this contract replaces the Primary Dealer in Danish Government Bonds Contract entered into between Government Debt Management and the institution referred to on page 2 on or about 1 December 2016.

Agreement

The underlying agreement is signed 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 in government bonds:

An institution which is party to a Primary Dealer contract in Danish government bonds 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.

Primary Dealer Fee:

A payment totalling up to DKK 25,000,000 per annum to be shared amongst all Primary Dealers in government bonds based on their individual performance in accordance with the Primary Dealer Terms and Conditions.

Primary Dealer Terms and Conditions:

The terms and conditions applicable from time to time stipulating the framework for market making and governing the distribution of the Primary Dealer Fee amongst all Primary Dealers in government bonds.

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

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| | quoting requirements set out in the Primary Dealer Terms and Conditions. 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 in the Primary Dealer Terms and Conditions. |
| Government bonds: | Refers to Danish government bonds. |
| Government Funds: | Comprise assets of the Social Pension Fund, Innovation Fund Denmark and the Fund for Better Working Environment and Labour Retention. |
| Governing framework: | The framework agreed upon by Government Debt Management and Primary Dealers in government bonds as a supplementary governance of the chosen platforms. |
| Chosen platforms: | The trading platform(s) used for market making in the secondary market for Danish government bonds. In consultation with Government Debt Management, the Primary Dealer Committees in bonds and T-bills elect the platform(s) used for market making. |

2. Privileges of Primary Dealers in government bonds

The Primary Dealers in government bonds 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 in government bonds to the Market Operation Committee.
- 2.7. advise and discuss with Government Debt Management developments in government debt markets.
- 2.8. receive a share of the Primary Dealer Fee based on the relevant Primary Dealer in government bonds' performance in accordance with the Primary Dealer Terms and Conditions.

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

3. Obligations of Primary Dealers in government bonds

Primary Dealers in government bonds 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.
- 3.3. quote two-way prices in the relevant bonds within the timeframe 9.00-16.30 and in accordance with the framework for market making as set out in the Primary Dealer Terms and Conditions.
- 3.4. actively promote and increase awareness of 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 in government bonds 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.
- 3.9. submit periodic performance data to Government Debt Management in accordance with the Primary Dealer Terms & Conditions for the pur-

purpose of determining the Primary Dealer Fee and, if so requested by Government Debt Management, promptly deliver additional documentation confirming the submitted performance data.

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 of this contract may be amended by Government Debt Management after consulting with Primary Dealers in government bonds.
- 4.3. The Primary Dealer Terms and Conditions may be amended by Government Debt Management after consulting with Primary Dealers in government bonds.

5. Termination

- 5.1. This contract expires on 31 December 2017.
- 5.2. Government Debt Management may, at any time, cancel this contract with any Primary Dealer in government bonds for a fixed period or altogether without any term of notice.
- 5.3. The Primary Dealer in government bonds may cancel this contract with the Danish Government Debt Management 30 days after having given a written notice of termination.

6. Governing law

This contract shall be governed by Danish law, and The Courts of Denmark shall have exclusive jurisdiction to settle any disputes in connection to this agreement. Venue shall be Copenhagen.

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

On behalf of the Ministry of Finance, Government Debt Management issues and buys back Danish government bonds. Issuance of Danish government bonds builds on a strategy of liquid series in the benchmark segments. The main part of the issuance is conducted at regular auctions supplemented by tap issuance in the secondary market.

Auctions

Auctions are held at a regularly basis and conducted via an auction facility chosen by the Government Debt Management. Only Primary Dealers in government bonds and Government Debt Management have access to the auction facility.

Bids shall be submitted in prices on the auction day. Normally, the ultimate deadline for submitting bids will be 10:15 a.m. with the aim of subsequent announcement of the auction result taking place no later than 10 minutes after the deadline for submitting bids.

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

Government Debt Management, in consultation with Primary Dealers in government bonds, assesses the functioning of the auction facility on an ongoing basis. Government Debt Management may decide, after consulting with Primary Dealers in government bonds, to amend the framework for auctions.

Tap issuance

Tap issuance is conducted on MTS Denmark, where Government Debt Management operates with similar technical status as either a market taker or market maker.

Government Debt Management will, in consultation with Primary Dealers in government bonds, evaluate and assess the functioning of the issuance scheme on an ongoing basis. Government Debt Management may decide, after consulting with Primary Dealers in government bonds, 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 MTS Denmark. 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.

Government Debt Management, in consultation with Primary Dealers in government bonds, 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 in government bonds, 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 via an auction facility chosen by the Government Debt Management. The initial sale would under normal circumstances amount to at least DKK 5 billion. Only Primary Dealers in government bonds and Government Debt Management have access to the auction facility.

Government Debt Management, in consultation with Primary Dealers in government bonds, assesses the functioning of the auction facility on an ongoing basis. Government Debt Management may decide, after consulting with Primary Dealers in government bonds, 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 intended 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 0.1 per cent per year for securities lending of government bonds. The fee is 0.1 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, +45 3363 6737 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 0.1 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 implementation 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, +45 3363 6737 or +45 3363 6736.