



Government Debt Management

SAMPLE

**AGREEMENT CONCERNING ISSUANCE OF
TREASURY SECURITIES AND MARKET
MAKING IN THE SECONDARY MARKET**

Agreement concerning issuance of Treasury securities and market making in the secondary market

The Central Bank of Iceland, national ID no. 560269-4129, on behalf of the Treasury, hereinafter referred to as the Central Bank and XXXXXXXX hf., national ID no. XXXXXX-XXXX, hereinafter referred to as the primary dealer, conclude the following agreement concerning issuance of Treasury securities and market making in the secondary market.

This agreement is identical to the agreements concluded with other primary dealers, which are dated on the same day as this agreement.

The objective of this agreement is to maintain the Treasury's access to loan financing and to enhance price formation in the secondary market for Treasury securities.

Article 1

Auctions of Treasury securities and primary dealer access

- (i) Treasury securities will be auctioned regularly and announced on accepted information system at least two trading days prior to an auction.
- (ii) Primary dealers have exclusive access to auctions of marketable Treasury securities falling under the provisions of Article 7.
- (iii) After the results of the auction of Treasury securities are available, the Central Bank may offer primary dealers the equivalent of 10% of the nominal value sold in the auction, at the average price of accepted bids. Each primary dealer that has submitted an accepted bid in the auction has the right to purchase an amount proportional to its total purchase. Example: A primary dealer purchases for 1 b.kr. in an auction and is therefore entitled to purchase for an additional 100 m.kr. at the average price of accepted bids in the auction.

Article 2

Obligations of primary dealers in auctions

Each primary dealer is obliged to submit bids at each auction for a minimum of 100 m.kr. at nominal value. Bids shall be in line with the published terms of the auction and in accordance with current market prices for issued series Treasury securities and other financial instruments that could be considered similar at the time in question. If, for any reason, a primary dealer neglects to submit a bid for an individual auction and does not explain the reason for so doing before the deadline for the auction, the Central Bank shall be authorised to reduce the commission paid to the dealer, cf. Article 5, by 1 m.kr. in each instance.

Article 3

Obligations of primary dealers in the secondary market

Each primary dealer is obliged to submit bids and offers to the information system of NASDAQ OMX in Iceland or other information system that participants agree to use, before the market opening for the series falling under the provisions of Article 7. The minimum trading lot shall always be 100 m.kr. nominal value for each series. Furthermore, each primary dealer is required to renew his partly or fully accepted offers within 10 minutes of execution.

The maximum spread between primary dealers' bidding and asking prices is determined by the price of valid offers. The maximum spread is determined by time to maturity, as follows:

<i>Maturity date</i>	<i>Maximum spread</i>
6 to 12 months	0.10%
1 to 2 years	0.15%
2 to 4 years	0.25%
4 to 6 years	0.30%
6 to 9 years	0.50%
9 to 12 years	0.60%
12 to 18 years	0.90%
18 years and longer	1.00%

The following Treasury securities are exempt from the maximum spread requirements. The primary dealer is nonetheless obliged to submit bids for a minimum of 100 m.kr. in each series:

<i>Maturity date</i>	<i>Maximum spread</i>
Treasury securities with a maturity of six months or less	No defined minimum spread. Bid shall be submitted.

If the primary dealer's total transactions in one series during a single day equal 600 m.kr. nominal value (marked as "AUTO"), the primary dealer is entitled to depart from above-specified maximum spread between bid and ask quotes for that particular series for the remainder of that day. Prerequisite for primary dealer to depart from above-specified maximum spread is that offers from the primary dealer have been accepted for 300 m.kr. for that particular series.

The primary dealer grants the Central Bank access to information concerning its quotes and transactions on the information system for all series of Treasury securities. The primary dealer also authorises the publication of information concerning its market share in the primary market.

Article 4

Communications and information disclosure

The primary dealer shall designate an employee to act as a liaison with the Central Bank with respect to the provisions of this agreement. The Central Bank shall meet with primary dealers as necessary. The Central Bank may request information on purchasers in Treasury auctions, categorised by type of investor.

Article 5

Payment and calculation of commission

The commission is divided into the following parts:

- (i) The Central Bank pays primary dealers a commission amounting to 0.10% of the market price of accepted bids in auctions of Treasury securities with a time to maturity exceeding three (3) years. The Central Bank shall pay a commission amounting to 0.04% of the market price of accepted bids in auctions of Treasury securities with a time to maturity of three (3) years or less. On the settlement date for the auction, the commission shall be deducted from the primary dealer's payment for the purchase of the securities. No commission shall be paid for auctions of Treasury bills.

- (ii) On 15 October 2014, and 15 April 2015, the Central Bank pays the primary dealer a commission that is calculated as his share of all primary dealers' transactions on the NASDAQ OMX Nordic Exchange in Iceland (transactions marked as "AUTO"), or other information system that participants agree to use, in series specified in Article 7 excluding Treasury bills, for the preceding six calendar months respectively. Calculation of commission is based on transactions by primary dealers only, not transactions of others dealers at the same financial firm. The total amount at all primary dealers' disposal is 90 m.kr. 15 October 2014 and 90 m.kr. 15 April 2015.

Article 6

Issuer purchases

The Central Bank may offer securities exchange, that is exchange one series covered by this agreement for another series. The Central Bank may also purchase Treasury securities with a time to maturity of six months or less and other series not covered by this agreement.

Other provisions

Article 7

The series covered by this agreement with regard to market making are as follows: RIKB 15 0408, RIKB 16 1013, RIKB 19 0226, RIKB 20 0205, RIKB 22 1026, RIKB 25 0612, RIKB 31 0124, RIKS 21 0414 and other series of Treasury bonds and Treasury bills that are issued during the term of this agreement.

Article 8

In case of a serious market disturbance, the Central Bank may, following a teleconference and with primary dealers' majority consent, change or temporarily suspend individual provisions of this agreement.

Article 9

Primary dealers have exclusive access to securities lending facilities provided by the Central Bank. The Central Bank sets rules concerning securities lending facilities provided to primary dealers.

Article 10

The Central Bank reserves the right to conclude identical agreements with new primary dealers during the term of this agreement. Such agreements, if concluded, will take effect upon signing and will not be retroactive with respect to commissions.

Article 11

This agreement shall take effect on 1 April 2014 and shall expire on 31 March 2015. Each party can terminate this agreement with two month notice. If either party considers that a serious violation of the provisions of this agreement has taken place, that party may terminate the agreement without further notice. On the effective date of this agreement, all previous agreements between the signatories concerning issuance of Treasury securities and market making in the secondary market shall expire.

The parties agree to review this agreement no later than 1 March 2015. This agreement is translated into English; however, the Icelandic original shall be considered the authoritative text.

Reykjavík, 12 March 2014.

CENTRAL BANK OF ICELAND
On behalf of the Treasury

XXXXXXXXXXXXX hf.