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**THE CENTRAL BANK OF ICELAND**

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**EXAMPLE**

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

## **Agreement concerning secondary market issuance and market making in Government securities**

The Central Bank of Iceland, national ID no. 560269-4129, on behalf of the Treasury, and XXXXXXX hf, national ID no. XXXXXX-XXXX, hereinafter referred to as the primary dealer, conclude the following agreement concerning issuance and market making with Government securities 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 objectives of this agreement are to maintain the Treasury's access to loan financing and to enhance price formation in the secondary market for Government securities.

### *Article 1*

#### **Auctions of Treasury notes and bills and primary dealer access**

- (i) Government securities will be auctioned regularly and announced on the news system of the OMX Nordic Exchange in Iceland (hereinafter referred to as the Exchange) at least two trading days prior to an auction.
- (ii) Primary dealers have exclusive access to auctions of Government securities.
- (iii) After the results of the auction are available, the Central Bank may, on behalf of the Treasury, offer primary dealers the equivalent of 10% of the nominal value sold in the auction, at the average price of accepted bids, until 14:00 on the settlement date of the auction. 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 Government 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 Exchange before the market opening for the series falling under the provisions of Article 7. The minimum trading lot shall be 50 m.kr. nominal value for each series. Furthermore, each primary dealer is required to renew his offers within 10 minutes of their being executed.

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>Time to maturity</i>	<i>Maximum spread</i>
3 to 6 months	0.10%
6 to 12 months	0.15%
1 to 2 years	0.20%
2 to 4 years	0.30%
4 to 6 years	0.40%
6 to 9 years	0.70%
9 years or longer	0.90%

The following Treasury notes and Treasury bills are exempt from the maximum spread requirements. The primary dealer is nonetheless obliged to submit bids for a minimum of 50 m.kr. in each series:

<i>Time to maturity</i>	<i>Maximum spread</i>
Treasury bills and Treasury notes with a maturity of three 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 300 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.

The primary dealer grants the Central Bank of Iceland access to information concerning its quotes and transactions on the Exchange for all series of Treasury notes and Treasury bills. 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 of Iceland with respect to the provisions of this agreement. The Central Bank shall meet with primary dealers as necessary. The Central Bank can ask for information regarding the buyers in Treasury auctions divided by type of investors.

#### *Article 5*

##### **Payment and calculation of commission**

Settlement and payment of commission will take place on December 10, 2008 and June 16, 2009. If a primary dealer gets commission based on the agreement concerning Issuance of Government Securities and Market Making in the Secondary Market dated May 23, 2008 then he is not entitled to commission according to this agreement for the period that was calculated as his commission for the older agreement. The commission is divided into the following parts:

- (i) The Central Bank of Iceland pays the primary dealer on the above settlement days – that is, twice during the agreement – an amount that is calculated as a percentage of his accepted bids **at Treasury securities**

**auctions**, for the preceding six calendar months. The total amount at all primary dealers' disposal on each occasion is 40 m.kr. *Example:* The Central Bank of Iceland, on behalf of the Treasury, has sold Treasury Notes for 20 b.kr. nominal value in auctions during the preceding six months. A primary dealer that has purchased 4 b.kr. nominal value in the auctions will receive an amount of 1/5 of 40 m.kr., or 8 m.kr.

- (ii) The Central Bank of Iceland pays the primary dealer on the above settlement days – that is, twice during the Agreement – an amount that is calculated as his share of all primary dealers' transactions at Treasury bill auctions on the Exchange (transactions marked as "AUTO") in series specified in Article 7, for the preceding six calendar months. The total amount at all primary dealers' disposal on each occasion is 40 m.kr.

#### *Article 6*

##### **Issuer purchases**

In order to support price formation in the market, the Central Bank of Iceland, on behalf of the Treasury, may purchase Treasury notes and Treasury bills with a time to maturity of three months or less. The Central Bank of Iceland may also purchase Treasury bonds with longer maturities for the aforementioned reason.

#### ***Other provisions***

##### *Article 7*

The series covered by this agreement with regard to market making are as follows: RIKB 09 0612, RIKB 10 0317, RIKB 13 0517, RIKB 19 0226, and other series of Treasury notes and Treasury bills that are issued during the term of this agreement.

##### *Article 8*

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

##### *Article 9*

Primary dealers have exclusive access to securities lending facilities provided by the Central Bank of Iceland. The Central Bank of Iceland, on behalf of the Treasury, sets rules concerning securities lending facilities provided to primary dealers.

##### *Article 10*

The Central Bank of Iceland 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 December 1, 2008 and shall expire on May 31, 2009. 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 and market making in Treasury securities in the secondary market, shall expire.

The parties agree to review this agreement no later than April 1, 2009.

Reykjavík, November 28, 2008

THE CENTRAL BANK OF ICELAND

XXXXXXXXXXXX hf.