



Government Debt Management

Sample

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

Agreement on 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 (referred to hereinafter as the Central Bank or the Bank), and [●] hf., national ID no. [●] (referred to hereinafter as the primary dealer), make the following agreement concerning Treasury securities issuance and market making in the secondary market.

For the purposes of this agreement, Treasury securities are domestic bonds issued by the Icelandic Treasury, including both bonds and bills issued domestically by the Treasury.

Article 1

Scope and objectives of the primary dealer agreement

The objectives of this agreement are to maintain the Treasury's access to credit financing and to enhance price formation in the secondary market for Treasury securities.

The Central Bank shall publish a list of primary dealers in Treasury securities. Those entities that have signed this agreement are permitted to refer to themselves as primary dealers in Icelandic Treasury securities.

Article 2

Treasury securities auctions and primary dealers' access to them

Treasury securities auctions will be held on a regular basis and will be announced via a recognised information system at least one business day in advance.

Primary dealers pledge to submit bids for at least 100 m.kr. nominal value in each auction of Treasury securities. Bids shall be in line with the published terms of the auction and in accordance with current market prices for issued series of Treasury securities and other financial instruments that could be considered similar at the time in question.

Only primary dealers are authorised to submit bids in auctions of Treasury bills and Treasury benchmark series with market making falling under Article 4.

After the results of Treasury securities auctions are available, the Central Bank may invite each primary dealer to purchase an additional 10% of the nominal value that the dealer concerned purchased in the auction, at the average price of accepted bids. Each primary dealer that 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.

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 7, by 1 m.kr. in each instance.

Article 3

Market making in the secondary market

The trading system for market making according to this agreement is the trading system of Nasdaq Iceland hf., National ID no. 681298-2829, or another system decided upon following consultation with primary dealers.

Primary dealers are not obliged to conduct market making with Treasury bills.

Each primary dealer is obliged to submit bids and offers to the trading system before the market opening for those Treasury securities falling under the provisions of Article 4. Bids and offers shall be of the following minimum nominal values:

<i>Series</i>	<i>Minimum nominal value, kr.</i>
RIKB 23 0515	100.000.000
RIKB 24 0415	100.000.000
RIKB 25 0612	100.000.000
RIKB 26 1015	100.000.000
RIKB 28 1115	100.000.000
RIKB 31 0124	100.000.000
RIKB 42 0217	100.000.000
RIKS 26 0216	90.000.000
RIKS 30 0701	60.000.000
RIKS 33 0321	60.000.000
RIKS 37 0115	100.000.000

Bids and offers shall be of 100 m.kr. minimum nominal value in new benchmark Treasury securities that might be issued during the term of the agreement.

Primary dealers are required to renew their bids in the system within 10 minutes of their being accepted either in full or in part.

Primary dealers' maximum bid-ask spreads are determined by the price of valid bids. The maximum bid-ask spread is decided based on time to maturity as of the trade date, subject to the following maximum values:

<i>Time to maturity</i>	<i>Maximum spread</i>
2 years or less	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 over	1.00%

The following Treasury securities are exempt from requirements concerning maximum bid-ask spreads:

<i>Time to maturity</i>	<i>Maximum spread</i>
Inflation-linked Treasury securities maturing in six months or less.	No defined minimum spread. Bid shall be submitted.

If a primary dealer's total transactions in a given series on a single day equal 600 m.kr. nominal value (marked as AUTO), that primary dealer is entitled to derogate from the maximum bid-ask spread specified in the table above for that series for the remainder of that day. In order for a primary dealer to derogate from the above-specified maximum spread, bids from that primary dealer must have been accepted for 300 m.kr. for the series concerned.

Article 4

Benchmark series

The benchmark series covered by this agreement for market making in the secondary market are as follows:

<i>Nominal Treasury series</i>	<i>Inflation-linked Treasury series</i>
RIKB 23 0515	RIKS 26 0216
RIKB 24 0415	RIKS 30 0701
RIKB 25 0612	RIKS 33 0321
RIKB 26 1015	RIKS 37 0115
RIKB 28 1115	
RIKB 31 0124	
RIKB 42 0217	

and other benchmark Treasury securities issued during the term of the agreement.

Article 5

Restrictions on issuer purchases of benchmark series

The Central Bank, on behalf of the Treasury, is not authorised to accept bids submitted in the trading system by market makers for benchmark Treasury securities if the time to maturity exceeds one year.

Article 6

Communications and information disclosure

Primary dealers shall appoint an employee to act as a liaison with the Central Bank on matters relating to the provisions of this agreement. Primary dealers are responsible for those parties that represent them in interactions with the Central Bank. The Central Bank holds meetings with primary dealers as it deems necessary. If the Central Bank so requests, primary dealers shall provide the Bank with information on purchasers in Treasury securities auctions, categorised by type of investor.

Primary dealers grant the Central Bank access to information on their bids and transactions in trading systems, for all Treasury series. Primary dealers also authorise the publication of information on their market share in the primary market.

Primary dealers shall endeavour to analyse the market for Treasury securities and inform the Central Bank of conditions in the Treasury securities market, as well as recommending measures to improve the functioning of the market, as applicable.

Article 7

Payment and calculation of commissions

Commissions specify as follows:

- (i) The Central Bank pays primary dealers a commission amounting to 0.10% of the market value of accepted bids in auctions of Treasury securities with a time to maturity of more than three years. The Central Bank pays primary dealers a commission amounting to 0.04% of the market value of accepted bids in auctions of Treasury securities with a residual maturity of three years or less. On the settlement date for the auction, the Central Bank deducts the commission from primary dealers' payments for Treasury securities. No commission shall be paid for auctions of Treasury bills.
- (ii) The Central Bank pays each primary dealer a fixed commission. The total amount available for distribution to all primary dealers is 110 m.kr. on 16 October 2023 and 110 m.kr. on 15 April 2024 and the commission is split equally between primary dealers.

Article 8

Settlement of securities transactions and authorisation for direct debit from current accounts

Settlement of auctions, repurchase agreements or other securities transactions with the Central Bank is executed through delivery versus payment (DVP) settlement process at a central securities depository. The primary dealer pledges to have sufficient funds available in the LOM account in the MBK system, for each settlement round on settlement date, until settlement has taken place.

The primary dealer declares that the Central Bank is authorised to direct-debit account no. [●] with the Bank in connection with special facilities according to Art. 10, and for all expenses in connection with the primary dealer's transactions with the Bank. The primary dealer pledges to have sufficient funds available in the account concerned.

Article 9

Serious market disturbances

In case of a serious market disturbance, the Central Bank may, upon obtaining the consent of a majority of primary dealers, amend or temporarily suspend individual provisions of this agreement.

Article 10

Special facilities for primary dealers

Primary dealers have access to special facilities provided by the Central Bank on behalf of the Treasury, such as repurchase agreements for Treasury securities. The Bank on behalf of the Treasury sets separate rules on facilities for primary dealers, and the parties to this agreement must comply with them.

Other provisions

Article 11

The Central Bank reserves the right to enter into identical agreements with new primary dealers during the term of this agreement, and any such agreements will take effect upon signature rather than being retroactive as regards the share in commissions.

Article 12

The Central Bank reserves the right to review the agreement during the contract period in order to make amendments to market making arrangements for “on-the-run” and “off-the-run” series.

Article 13

This agreement shall take effect on 1 April 2023 and remain in effect through 31 March 2024. Either party may terminate the agreement with two months’ 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 advance notice. This agreement renders all previous agreements between the parties concerning Treasury securities issuance and market making in the secondary market null and void.

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

This agreement has been translated into English; however, the Icelandic original shall be considered the authoritative text.

Reykjavík, [●] 2023

CENTRAL BANK OF ICELAND

On behalf of the Treasury

[●] HF.