A. List of Primary Dealers[1]

i. Government Bonds

FIRM	Denmark (DK)	Firm's location
Barclays	×	London
BNP Paribas	×	London
Danske Bank	×	Copenhagen
Deutsche Bank	×	Frankfurt
HSBC	×	Paris
J.P. Morgan	×	London
Morgan Stanley	×	London
Nordea	×	Copenhagen
Nykredit	×	Copenhagen
SEB	×	Copenhagen
Spar Nord	×	Aalborg
Sydbank	×	Aabenraa
TOTAL	**12**	

ii. T-Bills

FIRM	Denmark (DK)	Firm's location
Danske Bank	×	Copenhagen
Nordea	×	Copenhagen
Nykredit	×	Copenhagen
SEB	×	Copenhagen
Sydbank	×	Aabenraa
TOTAL	**5**	

Key:

AFME/Primary Dealer Members Non-AFME Members AFME Members

[1] List of primary dealers in Danish government securities as of October 2013.

B. Credit Rating

As of 13 December 2013, Danish domestic and foreign government debt has the following ratings:

- Standard & Poor's: AAA
- Moody's: Aaa
- Fitch Ratings: AAA
- DBRS: AAA

C. Debt Instruments General Information

i. Domestic Debt Instruments

Government Bonds

The central government of Denmark issues nominal government bonds in the 2-, 5-, 10- and 30-year segments. Danish government bonds are issued as bullet loans. In addition to the nominal bonds, a 10-year inflation-linked government bond was introduced in 2012. Terms of Borrowing are available at www.governmentdebt.dk.

Treasury Bills

Danish T-bills can be issued with a maturity up to 1-year. At the moment new 6-months T-bills are opened every third month. Hence, the Danish T-bill program consists at all times of two issues with three month difference in maturity. Monthly auctions are held at the penultimate business day.

ii. Foreign Debt Instruments

EMTN-program

The central government has a Euro Medium Term Notes (EMTN) programme that is used for bond issuances in foreign currency. Further documentation may be found on our website.

Commercial Papers

The central government has two commercial paper (CP) programmes. One directed at the European market, the ECP programme, and one directed at the American market, the USCP programme. Under the USCP programme the issuance is exclusively in US dollar, while under the ECP programme it is possible to issue in several currencies. Both the ECP and the USCP programme have a maximum outstanding of 12 billion dollars.

D. Privileges and Obligations of Primary Dealers

Primary Dealer Contract

The Danish Government Debt Management (DMO) has concluded primary dealer (PD) contracts for government bonds and T-bills, respectively. The rights and obligations of the primary dealers are specified in the primary dealer contract, which can be retrieved at www.governmentdebt.dk. The primary dealer contract resembles that of equivalent primary dealer contracts in other EU member states.

Privileges	Obligations
Use of the title " Primary Dealer in Danish Government Bonds" and/or "Primary Dealer in Danish T-bills"	Quote prices for five hours of the trading day between 09.00 and 16.30 within the applicable framework for market making
Be a counterparty in the central government's issuances and buy-back transactions	Be an active counterparty in issuances and buy-back transactions
Use of the securities lending facilities of the central Government and the Social Pension Fund	Promote and increase awareness of Danish government securities
	Support a well-functioning market for Danish government securities and display good code of conduct in clearing and settlement of trades

E. Primary Market[5]

i. Domestic issuance

Domestic government securities are sold via regular auctions supplemented with electronic tap sales via the trading platform MTS Denmark. At auctions, investors can buy large amounts of government securities by submitting bids via a primary dealer. New issues are also opened via auctions.

a. Auctions

Auctions take place via an auction facility with the primary dealers as counterparties. Currently, the auction facility of MTS Denmark is used. Only primary dealers and the DMO have access to the auction facility. In consultation with the primary dealers, the DMO evaluates the functioning of the auction facility on an ongoing basis and may decide to amend the auction framework.

The DMO regularly announces preliminary auction dates for domestic government bonds for the next three months. As a general rule, two different bonds are offered at each auction, because investor demand may change quickly across maturity segments. The government bond(s) to be auctioned will be announced no later than three trading days prior to each auction. The auction calendar and auction results are published at www.governmentdebt.dk.

The auction principle is uniform pricing, i.e. bids at the cut-off price or above are met at the cut-off price. The auction principle is uniform pricing, i.e. bids at the cut-off price or above are met at the cut-off price. Securities can be allotted pro rata to bids at the cut-off price. An auction can be completed without allotment.

b. Tap Issuance

Tap issuance is conducted in the secondary market where the DMO operates with similar technical status as either a market taker or market maker. The DMO may decide to amend the framework.

ii. Foreign issuance

The central government's foreign loans are syndicated and the strategy for foreign borrowing in coming year is outlined in yearly strategy announcement published in December. The quantities are estimates and subject to change and the DMO may adjust the strategy as long as this is approved by the Danish Ministry of Finance.

- **Procedure:** The DMO organizes a syndicate of banks that have a good reputation and extensive experience of syndicated issuance in the international bond markets. The banks must complement each other so as to ensure access to a broad geographical and institutional investor distribution.
- **Method of sale:** Bids are placed in a joint pool on a current basis (book-building). Each bid comprises a price (e.g. stated as a spread to the equivalent German benchmark bond or the swap curve) and a volume. This gives the issuer information on aggregate demand at different price levels. Upon conclusion of the book-building, the DMO sets a price to match the desired issuance volume. In this way, the pricing resembles an auction.
- **Communication:** Prior to the time of issuance, the banks in the syndicate work together to find investors for the bonds issued. After the issuance, the syndicate of banks issues a press release stating the results.

F. Secondary Market

i. Trading in Government Securities

Danish government bonds are traded on a series of electronic trading platforms such as Bloomberg, BondVision, ICAP/BrokerTec, MTS Denmark, NASDAQ OMX Copenhagen and TradeWeb.

ii. Securities Lending Facilities

Securities lending is aimed at supporting and strengthening an efficient market for trade in government securities. The securities lending facilities support liquidity in the secondary market as primary dealers can borrow government securities in the event of a shortfall in the market. This makes it easier for primary dealers to undertake market making and reduces the risk of distorting price formation.

Primary dealers have access to the securities lending facilities of the central government and the Social Pension Fund (SPF). The central government's securities lending facility normally comprises key on-the-run issues. The SPF can lend all government bonds in the SPF portfolio that are bullet loans with a remaining term to maturity of more than one month. Lending of securities is collateralised by other Danish government securities.

iii. Market Making

A group of banks have agreed to a primary dealer contract with the Danish DMO regarding ongoing market making, which contributes to a transparent and well-functioning market for Danish government securities.

Primary dealers are required to quote two-way prices on an eligible trading platform in Danish government securities 5 hours per day within a specific bid-ask spread, depending on the average bid-ask spread for all primary dealers. Thus, requirements are adjusted to market conditions on a continuous basis.

Among the eligible trading platforms, the primary dealers choose freely which platform they want to fulfill their quoting obligations on. Eligible trading platforms are elected by the primary dealers in consultation with the Danish DMO. Eligible trading platforms are required to meet a list of minimum requirements. The requirements can be retrieved at www.governmentdebt.dk. At the moment MTS Denmark and Eurex Bonds are eligible trading platforms.

From 1 January 2010, the market making scheme for primary dealers in Danish government bonds has been changed to a relative setup where the spreads are evaluated relative to other primary dealers, i.e. the minimum requirements for quoted spreads adjust automatic to changing market conditions.

In the current setup, the primary dealers' obligations differ between benchmark series and liquid series, cf. table below.

MARKET-MAKING OBLIGATIONS UNDER NORMAL MARKET CONDITIONS[2]						
	Benchmark Securities					Liquids
Maturity segment	2 years	5 years	10 years	30 years	Inflation-linked	All
Mandatory hours	5 hours	5 hours	5 hours	5 hours	5 hours	5 hours
Mandatory quantity (MQty)	DKK 100 million	DKK 80 million	DKK 50 million	DKK 25 million	DKK 25 million	DKK 25 million

The setup and necessary calculations are described below:

a. Evaluation of compliance regarding quoting obligations

The calculations below will be based on the following variables:

- **Quotation Time (Hours)**
  These data provide the total time the security is quoted with a quantity higher than or equal to compulsory quantity.
- **Best 5 Hours Spread (5HrSp)**
  This is the time-weighted average spread of the best (i.e. sharpest quoted) five hours of each security, where the quantity was higher than or equal to the compulsory quantity.
- **Quantity during Best 5 Hours Spread (5HrQty)**
  This is the time-weighted average quantity expressed in DKK million, quoted during the 5HrSp. In the case where the primary dealer has quoted for less than or equal to five hours, the time-weighted average quantity of the total quotation time, a quantity higher than or equal to MQty, must be provided.

b. Calculation of Compliance for one security

Primary dealers are evaluated on a monthly basis in regards to their compliance with quoting obligations. The calculation of the compliance is based on quotes where 5HrQty ≥ MQty and 5HrSp ≤ CompSp. The daily competitive spread in securities is calculated as:

$$CompSp_s = k \cdot \frac{\sum_{p \in PD_s} 5HrSp_{p,s}}{\#PD_s}$$

At the moment, k s set to 1.25. The magnitude of k is subject to regular evaluations. In benchmark series, $\#PD_s$ is the total number of primary dealers. For liquid series, the variable indicates the number of primary dealers who have quoted prices for the mandatory amount. For a primary dealer to be included in a liquid series, the primary dealer will not have to quote prices for the compulsory 5 hours. However, the compliance ratio can never be 100 per cent if the quotation time is below 5 hours, see below.

[2] For further informaton, see 'Danish Government Borrowing and Debt 2010'

If a primary dealer has quoted prices in a security with 5HrSp ≤ CompSp and 5HrQty ≥MQty, then the compliance ratio in this security will be:

$$Compliance_{p,s} = \min\left[\frac{Hours_{p,s}}{5}, 1\right]$$

In other cases, the compliance in the specific security will be zero.

c. Daily and Monthly Compliance

The daily compliance (DC) is calculated as:

$$DC_p = \alpha \cdot \frac{\sum_{s \in benchmarks} Compliance_{p,s}}{\#benchmarks} + (1-\alpha) \cdot \frac{\sum_{s \in liquids} Compliance_{p,s}}{\#liquids}$$

Initially, α is set to 0.8. The level is subject to regular evaluations. That is, a primary dealer that only quotes in benchmark series cannot achieve a DC higher than α independently of the number of benchmark series.

The monthly compliance (MC) is the sum of all DC ratios divided by the total number of working days, i.e.

$$MC_p = \frac{\sum_{d \in working\ days} DC_{p,s}}{\#working\ days}$$

The number of working days may vary between primary dealers depending on holiday calendars. A primary dealer is compliant during a month, only if his MCR is at least 85%.

d. Price Quoting in the Dealer to Customer Market

In addition to the market making setup in relation to the primary dealers, the DMO has a price-quoting system aimed at the retail market on NASDAQ OMX. Four banks (Danske Bank, Nordea, Nykredit Bank and Sydbank) have agreed to quote prices within pre-defined spreads and for minimum amounts for at least 5 hours between 09.00 and 16.00.

Through the price-quoting system, investors have ongoing access to pre-trade information for Danish government bonds. Members of the bond sub-segment on NASDAQ OMX can trade directly with the price quoters. In addition, investors have access to submitting orders in the trading system via their bankers. This enables retail investors to trade directly in a transparent market.

G. General Information on Government Borrowing and Debt

i. Framework of Government Debt Management in Denmark

The Minister of Finance is authorized by law to raise government loans and has the overall and political responsibility for central-government borrowing and debt, including relationships with the Folketing (Parliament). The management of the central-government debt is conducted by the Danish Debt Management Office (DMO) on behalf of the Ministry of Finance, and in accordance with the government debt strategy agreed with the Ministry of Finance.

ACT ON THE AUTHORITY TO RAISE LOANS ON BEHALF OF THE CENTRAL GOVERNMENT

Under the Danish Constitution, debt can be issued by the central government on a statutory basis only. The statutory basis for central-government borrowing is set out in the "Act on the authority to raise loans on behalf of the central government"[1], which authorizes the Minister of Finance to raise loans on behalf of the central government for a maximum of kr. 2,000 billion. This amount is the upper limit for domestic and foreign gross debt. In connection with current debt management, the Minister of Finance is moreover authorized to enter into swap agreements and other financial transactions. The central government's cost of borrowing, i.e. interest costs and capital losses on issues and buy-backs, must be appropriated under the annual finance acts.

[1]Act no. 1079 of 22/12/1993 as amended, see www.governmentdebt.dk.

The distribution of responsibilities between the DMO and the Ministry of Finance is specified in the 'Agreement on the division of work in the area of government debt between Danmarks Nationalbank and the Ministry of Finance', 13 November 2006. The framework for management of the assets of the Social Pension Fund is laid down in the 'Regulations governing the management of the Social Pension Fund'.

In most countries, day-to-day management of the central Government debt is undertaken by the Ministry of Finance or a separate DMO. In Denmark, the DMO is located in Danmarks Nationalbank, but its tasks and organization corresponds to those in other countries. The internal structure of the Danish DMO reflects international standards and recommendations.

The Danish DMO is audited by Danmarks Nationalbank's auditors on behalf of the National audit office of Denmark. The National audit office reviews the accounts of government institutions, i.e. checks that they are without significant errors and discrepancies. The audit office of Denmark may in addition assess whether the funds received by government institutions are applied in the best possible way.

H. Appraisal of the Activity of Primary Dealers

The evaluation of the primary dealers is based on a broad range of criteria in order to take each primary dealer's overall contribution to a well-functioning market into account.

The key obligation of the primary dealers is to ensure effective price discovery (market making). First of all, the primary dealers must fulfill their quoting obligations. Compliance must be above a certain threshold as described above. Given that this criterion is met, the importance attached to the remaining criteria may vary. Depending on the market conditions, different weight are placed on, e.g.:

- Quoting performance including bid-ask spreads and quantities
- Participation in issuance and buy-back transactions
- Reporting
- Promotion of Danish government securities

I. Contacts

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[8] The Debt Management Agency in Denmark is part of the National Central Bank.

b. Primary Dealers

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