

## 5. Payment and Settlement Systems

The CBC Interbank Funds-Transfer System (CIFS) is the backbone of Taiwan's payment system, linking the Check Clearing House System (CCHS), the Interbank Remittance System (IRS), the Central Government Securities Settlement System (CGSS), the Bills Clearing and Settlement System (BCSS), the Securities Book-Entry Clearing System (SBECS), and the Electronic Bond Trading System (EBTS) together to constitute a comprehensive payment system.

Accordingly, the Bank, with its mandate for financial stability, plays a key role in the smooth functioning of Taiwan's payment systems. In addition to operating the CIFS and the CGSS, the Bank also monitors major payment systems based on international standards to ensure sound operation of these systems and to promote stability of the financial system.

### Operation of Payment and Settlement Systems

#### (1) Funds Transfers via the CIFS

Launched in May 1995, the CIFS is a large-value electronic funds-transfer system. In addition to dealing with interbank funding, reserve requirement adjustments and funds settlements in financial markets, the CIFS also provides interbank final settlement services to several clearing institutions such as the Taiwan Clearing House (TCH), the Financial Information Service Co. (FISC), the Taiwan Depository and Clearing Corporation (TDCC) and the Taiwan Stock Exchange Corporation (TWSE).

At the end of 2012, participants of the CIFS included 68 banks, eight bills finance companies, and four other institutions including Chunghwa Post Co., the TWSE, and the GreTai Securities Market (GTSM). For the year as a whole, the daily average amount of funds transferred via the CIFS was NT\$1,538.6 billion, while the daily average number of transactions reached 2,846.

#### (2) Transactions via the CGSS

The CGSS was established in September 1997. It is a system for issuance, transfer, redemption, and interest payment of book-entry central government securities. Since its inception, central government bonds have been issued in book-entry form. In October 2001, treasury bills were included in this system and have been issued in book-entry form since then.

The CGSS linked up with the CIFS in April 2008. Since then, fund settlements, principal redemptions and interest payments have been handled through the CIFS using a delivery-versus-payment (DVP) mode. The DVP mode, promoted by the Bank for International Settlements (BIS), is an arrangement connecting securities delivery with funds settlement in a securities settlement system to ensure that

securities delivery occurs almost at the same time as the funds transfer, effectively mitigating potential risks during the transaction process.

There were 16 clearing banks with 1,690 branches that handled the registration of central government securities transfers at the end of 2012. During 2012, 402 thousand transfers with a total amount of NT\$38.9 trillion were processed by this system.

### **Monitoring Payment Systems**

The Bank monitors the payment systems on a periodic basis to maintain their safety and efficiency. Monitoring activities include the following:

- (1) Required payment system operators and payment instrument issuers to provide detailed information on their operations and activities as a basis for monitoring payment systems.
- (2) Ensured clearing institutions set up backup systems and contingency plans for business continuity in case of emergency.
- (3) Invited clearing institutions, the FISC, the TDCC, and the TCH, to jointly hold conferences twice in 2012 to promote the sound operation of the payment systems.
- (4) Amended Article 23 in the *Regulations Governing the Business of Negotiable Instruments Exchange and Clearance of Accounts among Banks* in response to the implementation of the *Personal Information Protection Act*, and stipulated the “*Regulations Governing the Clearinghouse’s Plan of Security Measures for Personal Information*” to require clearinghouses to comply with relevant obligations defined in the *Personal Information Protection Act*, and to strengthen the management of credit information.
- (5) Urged the TCH to establish a risk management mechanism of check clearing and settlement to control counterparty risk, and completed the amendments of corresponding regulations. In addition, all updated information operating systems were launched at the end of January 2013.

### **Building the Foreign Currency Payment System**

In October 2012, the bank assigned a task force to the effort to establishing a foreign currency settlement system, aiming to meet a growing need for domestic US dollar remittances, to assist in processing interbank US dollar spot, swap, call loans and other transactions, and to facilitate the burgeoning business of RMB receipt and payment and cross-strait currency settlement. The system is expected to be fully constructed in the first half of 2013.

### **International Research Cooperation**

In 2012, the Bank participated in the project titled “The Role of Payment Systems in Monetary Policy and Financial Stability” held by the South East Asian Central Banks (SEACEN) Research and Training Centre, and submitted a research report on the case of Taiwan.