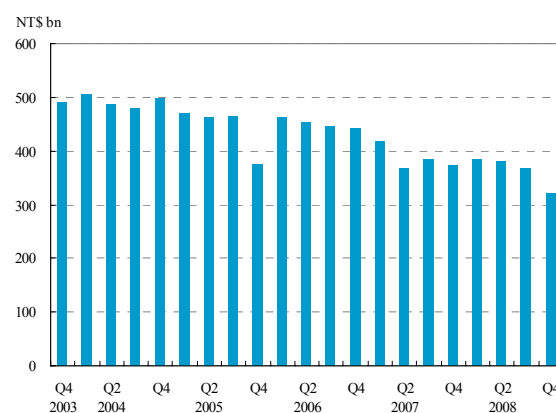


The guarantee business shrank

The outstanding balance of commercial paper guaranteed by bills finance companies continued to decline in the second half of 2008. This figure dropped further to NT\$320.3 billion as of the end of 2008, down 15.60% from the end of June 2008. The main reason was that bills finance companies appeared to reduce customers' credit lines in response to the difficulty in obtaining financing from the call-loan market from September 2008 (Chart 5.48). In 2009 Q1, the outstanding balance continued dropping in January and began to increase slightly in February, but the figure at the end of March was still lower than that at the end of 2008.

Chart 5.48 Outstanding commercial paper guarantees



Note: End-of-period figures.
Source: CBC.

5.3 Financial infrastructure

5.3.1 Payment and settlement systems

Transactions of major systems

In 2008, the average daily transactions of the three major payment and settlement systems, the CBC Interbank Funds-Transfer System (CIFS), the Interbank Remittance System (IRS) and the Check Clearing House System (CCHS)⁶⁰, reached 2.26 million transactions in volume or NT\$1.67 trillion in value, increasing by 0.95% or 5.61% year on year, respectively (Table 5.3). The transaction value of the IRS system decreased for the first time, contracting by 2.45% year on year in 2008. The main reason behind this was the average daily value for wire deposits⁶¹ declined owing to the contraction in mutual funds and securities transactions caused by the global financial crisis and economic sluggishness.

⁶⁰ The CBC Interbank Funds Transfer System (CIFS) is operated by the CBC, handling interbank fund transfers and payment settlements. The Interbank Remittance System (IRS) is operated by the Financial Information Service Co., Ltd (FISC), providing remittance services, including interbank remittances, ATM withdrawals, fund transfers, financial EDI and internet payments. The Check Clearing House System (CCHS) is supervised by the CBC and handles clearing and settlements of checks, promissory notes, and drafts among banks.

⁶¹ Remittance services provided by the IRS include: (1) wire deposits; (2) treasury remittances; (3) interbank remittances; (4) securities settlement payments; and (5) bills settlement payments.

Table 5.3 Average daily transactions for the three major payment and settlement systems

Items	Types of systems	2007	2008	Change (%)
Volume (in thousands of transactions)	CIFS	3.25	3.38	4.00
	IRS	1,652.24	1,717.69	3.96
	CCHS	580.74	536.48	-7.62
	Total	2,236.23	2,257.55	0.95
Value (in NT\$ bn)	CIFS	1,012.05	1,120.64	10.73
	IRS	474.92	463.31	-2.45
	CCHS	90.47	82.00	-9.36
	Total	1,577.44	1,665.94	5.61

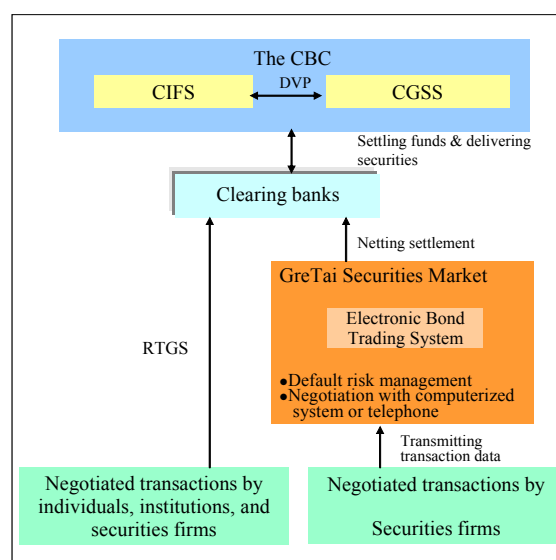
Source: CBC.

Integration of large-value payment systems

As government bonds dominated the domestic bonds market, the CBC set up the Central Government Securities Settlement System (CGSS) in September 1997 in order to enhance the efficiency of government bonds settlement.

Furthermore, the CBC linked the CGSS and the CIFS on a delivery versus payment (DVP) basis in April 2008 to improve settlement security and reduce settlement risk on government bond transactions and to conform to the Recommendations for Securities Settlement Systems.⁶²

Currently, the underwriting of central government bonds is done via central government bond dealers. As for the secondary market, except for the transactions between investors and securities firms, the transactions among securities firms are done and cleared through the GTSM Electronic Bond Trading System (EBTS),⁶³ and are

Chart 5.49 The framework of the Central Government Securities Settlement System

Source: CBC.

⁶² "Recommendations for securities settlement systems," Committee on Payment and Settlement Systems (CPSS) & International Organization of Securities Commissions (IOSCO), November 2001.

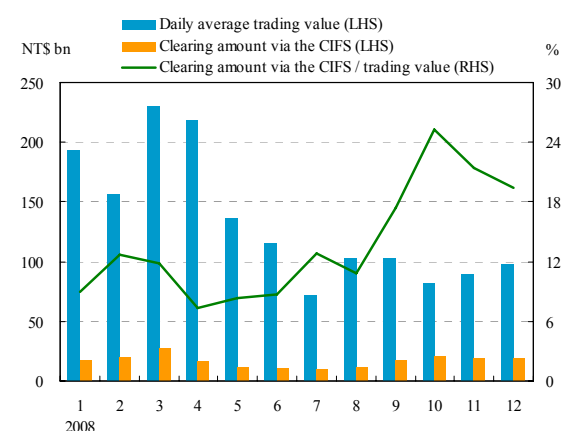
⁶³ The EBTS is operated by the GreTai Securities Market (GTSM), which is a non-profit organization with the mission of developing the over-the-counter market.

settled by sixteen clearing banks via the CIFS and the CGSS (Chart 5.49). After the development of the aforementioned systems, the CIFS was integrated with large-value payment systems for bonds, bills and stocks and complies with international recommendations calling for the use of central bank money for final settlement.

GTSM Electronic Bond Trading System and its liquidity saving mechanism

To enhance the settlement efficiency and security of book-entry central government bond transactions, the CBC incorporated the EBTS into the CIFS in July 2007 to allow payments to be done on a real-time basis. In addition, the EBTS has the advantage of decreasing liquidity needs for securities firms because it adopts a netting settlements mechanism. Consequently, the daily average trading value settled via the CIFS in December 2008 accounted only for 19.3% of the total trading amount (Chart 5.50).

Chart 5.50 GTSM Electronic Bond Trading System



Source: GTSM.

5.3.2 Financial market exit mechanism and ownership management

To enhance financial competitiveness, early warning mechanisms, financial supervision, and corporate governance as well as to place the financial market exit mechanism under the legal framework, the Banking Act of the Republic of China was amended on 30 December 2008, mainly to set up prompt corrective actions and a market exit mechanism based on the capital adequacy ratios of financial institutions, and to strengthen ownership management in banks.

Prompt corrective actions and financial markets exit mechanism

In order to enhance the safety and soundness of the banking sector, as well as to reduce the cost of dealing with problem financial institutions, the newly amended Banking Act introduces prompt corrective actions and classifies banks into four categories based on their capital adequacy ratios, namely well capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. For those undercapitalized or significantly undercapitalized banks, the Financial Supervisory Commission (FSC) shall take necessary

enforcement actions,⁶⁴ such as suspending certain business operations or the duties of management, or placing restrictions on obtaining or disposing certain assets, to urge them to improve their capital adequacy.

Those banks with a capital adequacy ratio or equity to total assets ratio lower than 2% will be deemed as critically undercapitalized. Except for the aforementioned enforcement actions, the FSC shall take them over within 90 days when they are classified as being critically undercapitalized or when they fail to comply with the recapitalization or merger plans within a certain time limit required by the FSC.

Prompt corrective actions assist the FSC in identifying banks with weakening capital structures at an early stage and implementing necessary enforcement and remedial actions on a timely basis, and thus help to strengthen banks' capital adequacy and to ensure the safety and soundness of banking system. Moreover, the FSC are required to take over critically undercapitalized banks within a certain period of time. This requirement will help to speed up the market exit mechanism so as to avoid delaying the resolution of problem banks, as well as to reduce their resolution cost.

Enhancing ownership management in banks

To enhance the transparency of ownership and the fit and proper management, the amended Banking Act stipulates that a single party or single group of related parties holding an equity stake of more than 5% in a bank is required to file with the FSC within ten days, and such a party or group seeking to acquire an equity stake of more than 10%, 25% or 50% must file with the FSC for prior approval. Should the stockholder fail to notify the FSC or obtain prior approval, voting rights for the stockholding exceeding the preceding ratios shall be expropriated and the excess stockholding shall be disposed of within a certain period of time required by the FSC.

5.3.3 Revision of inventory accounting standards

Fair presentation and transparency of financial statements of enterprises are essential to financial institutions' credit decisions. To enhance inventory management, improve transparency in financial statements and promote investors' confidence, as well as to conform

⁶⁴ For undercapitalized banks, the enforcement actions include requiring them to submit recapitalization and operational enhancement proposals or limiting the increase of their risk weighted assets. For significantly undercapitalized banks, in addition to those enforcement actions taken for undercapitalized banks, the enforcement actions also include suspending the duties of management, placing restrictions on obtaining or disposing assets, restricting transactions between related parties, limiting deposit interest rates, lowering compensation for management, or designating receivers to take over the banks.

to internationally accepted accounting standards, the revision of the Statement of Financial Accounting Standards No. 10, Inventory Accounting Standards (SFAS 10), was effected as scheduled on 1 January 2009.

The major amendments to SFAS 10 are as follows:

- Inventories are required to be stated as the lower of cost or net realizable value instead of the lower of cost or market value.
- Inventories should not be written down to net realizable value on the basis of total items.
- Using the last-in, first-out formula to measure the cost of inventories is not permitted.
- Any write-down of inventories to net realizable value should be recognized as cost of goods sold when they occur.
- Fixed cost must be allocated on the basis of the normal capacity of the production facilities. Unallocated overheads are recognized as costs of goods sold.
- New accounting treatments are developed for cost of inventories of a service provider.

The FSC has adopted a series of measures to alleviate the impacts of SFAS 10 on enterprises, such as allowing the deferral of the recognition of losses caused by lower capacity utilization until the end of 2009 and proposing to release the trading restrictions for listed securities. Through these measures, it is expected that the impacts of SFAS 10 can be minimized and the compliance of Taiwan's SFAS with internationally accepted accounting standards can be improved.