

## 3.3 Financial infrastructure

### 3.3.1 Payment and settlement systems

#### Overview of systemically important payment systems in 2012

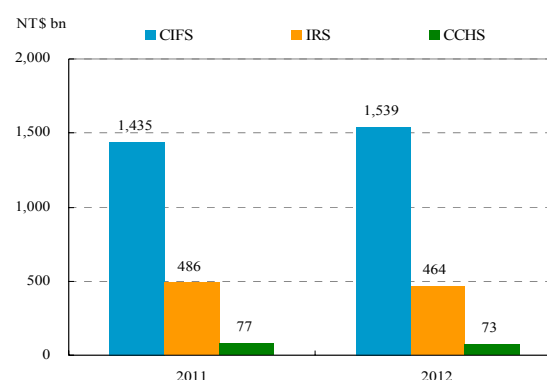
The three systemically important payment systems (SIPs), which process domestic interbank payments, operated soundly in 2012. Compared to the previous year, the average daily transaction value of the CBC Interbank Funds-Transfer System (CIFS) increased while those of the others declined slightly (Chart 3.52). In addition, the CIFS, which handles large payments and the final settlement of interbank fund transfers, continued to be the most important one, with average daily transaction value reaching NT\$1.54 trillion and accounting for 74% of the total.

#### Reinforcing the risk management of check clearing

When institutions participating in the check clearing system are unable to fulfill their clearing and settlement obligations, it will bring unexpected liquidity and credit risks to other participating institutions and, in turn, might cause systemic risks. To control check clearing and settlement risks, the CBC urged the Taiwan Clearing House (TCH) to establish a risk control mechanism in order to ensure the completion of intraday clearing when any of the participating institutions is unable to make their payments.

To induce the TCH to fulfill its responsibilities of check clearing and settlement based on the above-mentioned risk control mechanism, the CBC allowed the TCH to open a transitional settlement account with the CBC so as to settle the net amounts of check settlements and monitor operations simultaneously. Accordingly, the TCH applied to the CBC for settlement accounts in January 2013 and has settled the net amounts of check clearing and settlement through the designated accounts since 25 February of the same year.

**Chart 3.52 Average daily transaction value of the three SIPs**

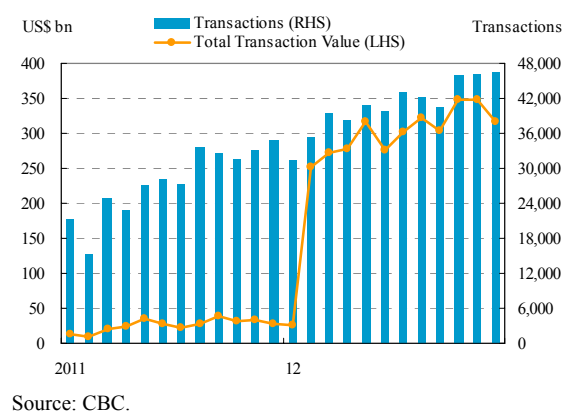


Source: CBC.

### Establishment of the foreign currency payment system

To assist the establishment of a domestic US dollar bills market and protect customer interests, the CBC promoted the setting up of a domestic US dollar settlement system in September 2008. Mega International Commercial Bank (Mega Bank) was designated by the Bankers Association as the sole domestic US dollar settlement bank. The new US dollar settlement system officially started in December 2010, with the benefits of effectively shortening the time of remittance and reducing remittance fees when local US dollar remittance would no longer need to be processed by foreign correspondent banks. In 2012, the US dollar settlement system processed 490 thousand transactions with a total value of US\$3.36 trillion, significantly increasing by 47.24% and ten times, respectively, over the previous year. It was mainly contributed to by the inclusion of NTD/USD currency swaps between the CBC and commercial banks since February 2012 (Chart 3.53).

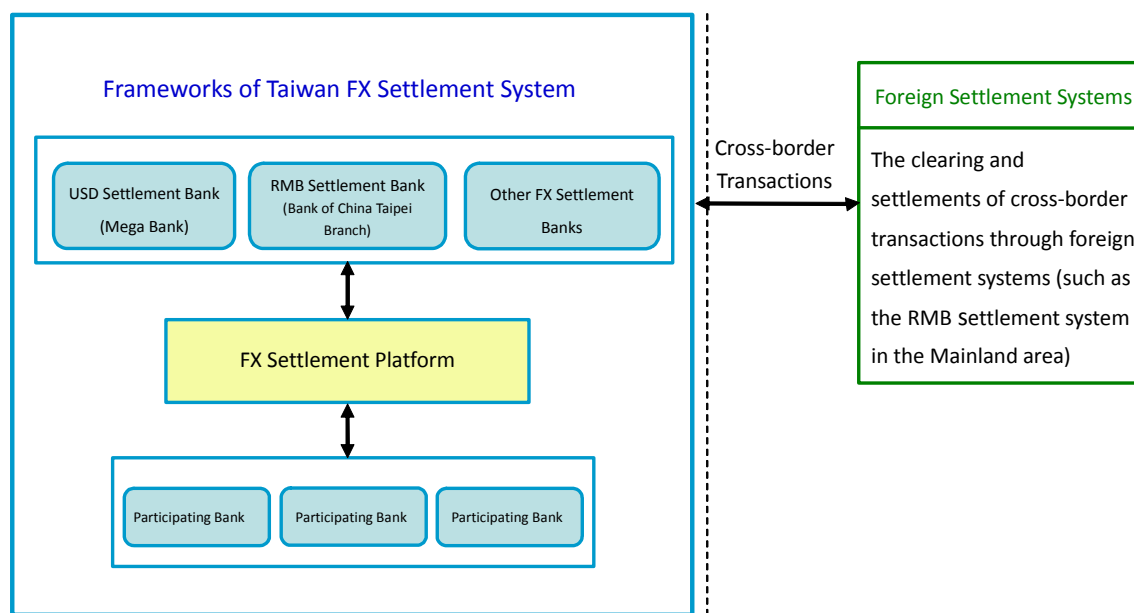
Chart 3.53 Average daily transaction value of the three SIPSS



In addition, to reinforce domestic financial infrastructure, the CBC planned to encourage the Financial Information Service Co., Ltd. to establish a foreign exchange (FX) settlement platform that would meet international standards (Chart 3.54). The new platform was launched on 1 March 2013 and only US dollar remittance was included in the platform in the initial stage. However, domestic and cross-border RMB remittance services would be provided by the end of July, and the settlement of other FX transactions will be put into consideration in the next stage. The contributions of the platform are as follows:

- Effectively using financial resources and achieving economies of scale as the settlements of US dollar, RMB and other FX transactions are processed on one platform.
- Maintaining competition fairness by preventing the settlement banks from accessing the client information of participating banks, as the FX transactions of participating banks are handled by the FX settlement platform which acts as an intermediary.
- Meeting international standards and dealing with both domestic and foreign FX payment transactions (including cross-border RMB remittance) at the same time, so as to help the development of the domestic financial services industry.

Chart 3.54 Framework of FX Settlement Systems



Source: CBC.

### 3.3.2 Cross-Strait Currency Clearing Mechanism inaugurated and designated foreign exchange banks allowed to begin renminbi business

Taiwan's Straits Exchange Foundation and Mainland China's Association for Relations across the Taiwan Straits jointly signed the Cross-Strait Financial Cooperation Agreement on 26 April 2009. In terms of monetary management under the agreement, the monetary supervision authorities on both sides made efforts regarding several cooperative issues such as cash notes exchange and supply, and also took steps to develop a cross-strait currency clearing mechanism in order to strengthen mutual cooperation in monetary management. To promote cross-strait business activities and financial cooperation, the CBC and the PBC together signed the Memorandum on Cross-Strait Currency Clearing Cooperation on 31 August 2012, and officially established the Cross-Strait Currency Clearing Mechanism.

#### Main contents of Cross-Strait Currency Clearing Mechanism

- Establishing a framework of cross-strait currency clearing and settlement whereby the two central banks separately designate one currency clearing institution to provide corresponding currency settlement and clearing services in accordance with the relevant

laws and regulations of both sides.

- Building up a supervisory cooperation mechanism between the two central banks, including information exchange, protection of confidentiality, business examination, crisis management, and communication mechanisms, etc.

### **History of development**

After the signing of the Memorandum on Cross-Strait Currency Clearing Cooperation, the CBC and the PBC actively moved on to the designation of each side's clearing bank and the signing of a currency clearing agreement (Table 3.3 and 3.4). Finally, DBUs in Taiwan officially launched their onshore renminbi business centers on 6 February 2013, and the Shanghai branch of the Bank of Taiwan (BOT), the NTD settlement bank in the mainland area, commenced the business of exchanging NT dollar banknotes on 2 April 2013.

As of 30 April 2013, 58 local banks had inaugurated renminbi business, taking in deposits totaling RMB 24.7 billion and processing 12,888 remittances amounting to RMB 6.4 billion through the Bank of China's (BOC) Taipei branch.

### **Expected benefits and future prospects**

The establishment of the Cross-Strait Currency Clearing Mechanism is an epoch-making action, bringing great advantages for domestic financial institutions, enterprises, individuals and the development of the whole financial industry. The benefits are summarized as follows:

- Increasing the options of currencies used in cross-strait trade and raising the flexibility of fund management for corporations.
- Helping the government to promote the Program to Develop Financial Services with Cross-Strait Characteristics and meeting the growing needs for wealth management, including the provision of renminbi business, the issue of renminbi bonds and other renminbi-denominated products by financial institutions.
- Allowing overseas financial institutions to participate in the mechanism, which is beneficial for Taiwan to become an offshore center for renminbi transactions.

In addition, to provide adequate renminbi liquidity, the CBC has begun preliminary discussions with the PBC on the establishment of a reciprocal currency swap agreement which is scheduled for further cooperation.

**Table 3.3 Development history of renminbi business in Taiwan**

Date	Development History
2012.12.11	The PBC designated the Taipei branch of the BOC as the renminbi clearing bank in Taiwan.
2013.1.25	The PBC and the BOC Taipei branch signed the renminbi clearing agreement.
2013.1.28	The CBC approved the application of the BOC Taipei branch to be the renminbi clearing bank in Taiwan.
2013.1.30	The CBC and the BOC Taipei branch jointly held a seminar on the regulations governing renminbi business and renminbi clearing.
2013.2.6	Authorized foreign exchange banks (DBUs) in Taiwan started offering renminbi-related business services, in line with public expectations of business commencement before the Lunar New Year holidays.
2013.2.8	The CBC approved Chinatrust Commercial Bank to issue renminbi-denominated bonds (Formosa bonds) in Taiwan, with a total amount of RMB 1 billion, a term of three years, and a coupon rate of 2.9%.
2013.3.11	The CBC approved Deutsche Bank AG to issue renminbi-denominated bonds (Formosa bonds) in Taiwan, with a total amount of no more than RMB 2 billion, the coupon rates ranged from 1.5% to 2.5% for three-year bonds and from 1.6% to 2.7% for five-year bonds, respectively.

Source: CBC.

**Table 3.4 Development history of NT dollar business in the mainland area**

Date	Development History
2012.9.17	The CBC selected the BOT Shanghai branch as the NT dollar clearing bank in the mainland area.
2013.1.4	The CBC approved the designation of the BOT Shanghai branch as the NT dollar clearing bank in the mainland area.
2013.1.9	The CBC approved the export and import of NT dollar banknotes.
2013.2.4	Mainland China's State Administration of Foreign Exchange approved the import and export of NT dollar banknotes.
2013.4.2	The BOT Shanghai branch commenced the business of exchanging NT dollar banknotes.

Source: CBC.

### 3.3.3 Securities firms permitted to set up OSUs

In order to attract Taiwanese overseas funds to flow back to Taiwan, as well as effectively utilizing the capital and credibility of parent securities firms to broaden the participation of the international financial business in Taiwan, the government proposed a project termed the Money Management Platform for Taiwanese Citizens, permitting securities firms to conduct offshore securities business. Accordingly, the FSC, jointly with the CBC, drew up the draft of the amended Offshore Banking Act to authorize securities firms to establish OSUs to conduct offshore securities business. The amended Act will grant tax preference to the OSUs, with reference to the taxation of OBUs, and formulate relevant supervisory regulations to be comparable to existing relevant laws governing securities-related activities. The key amendments to the Offshore Banking Act are summarized in Table 3.5.

The Legislative Yuan has been reviewing the above-mentioned draft of the Offshore Banking Act since March 2013, after receiving it from the Executive Yuan on 29 January that year. It is expected that the legislation of the amended Offshore Banking Act will contribute to promoting Taiwan as a regional financial center, and fulfill the goal of Money Management Platform for Taiwanese Citizens simultaneously. In addition, it will be conducive to bolstering economic growth and increasing employment opportunities, as well as cultivating and attracting international financial professionals.

**Table 3.5 Key points of the amended Offshore Banking Act**

Key amendments	Contents
1. Securities firm qualifications	A securities firm that is a securities underwriter, securities dealer and securities broker at the same time, according to Article 16 of the Securities and Exchange Act, may, through their head office, apply to the competent authorities to obtain approval for the establishment of an OSU with a separate set of accounts to conduct offshore securities business within the territory of the R.O.C.
2. Scope of offshore securities business	<ol style="list-style-type: none"> <li>1. Selling foreign currency corporate bonds or other certificates of debt issued by head offices to natural persons, juridical persons, government agencies and financial institutions within or outside the territory of the R.O.C;</li> <li>2. Undertaking brokerage, intermediation and agency activities of foreign currency securities or other foreign currency financial products approved by the competent authorities for natural persons, juridical persons, government agencies and financial institutions within or outside the territory of the R.O.C;</li> <li>3. Borrowing or lending, and buying or selling foreign currency securities or other foreign currency financial products approved by the competent authorities, by virtue of securities activities, between the mentioned OSU and other financial institutions, or between the mentioned OSU and natural persons, juridical persons, government agencies and financial institutions outside the territory of the R.O.C;</li> <li>4. Underwriting securities issued outside the territory of the R.O.C;</li> <li>5. Conducting account custody, agency and consultation business related to the above-mentioned business for natural persons, juridical persons, government agencies and financial institutions within or outside the territory of the R.O.C;</li> <li>6. Conducting consultation business of asset allocation or financial planning as well as sales services of foreign currency securities or other foreign currency financial products approved by the competent authorities, commissioned by natural persons, juridical persons, government agencies and financial institutions within or outside the territory of the R.O.C;</li> <li>7. Other foreign exchange business related to securities activities, approved by the competent authorities.</li> </ol>
3. Authorizing a branch office to handle the OSU's business	1. The OSU may authorize a branch office of its parent firm, which has been approved by the CBC to undertake foreign exchange business related to securities activities, to handle the above-mentioned business. Such business handled by the branch office should be booked in the OSU.

	2. The business authorized to be handled by the branch office includes cross-straits securities activities approved by the competent authorities. The OSU should handle the control and supervision of such activities in accordance with the regulations related to cross-strait securities activities, and should coordinate as well as be responsible for such control and supervision.
4. Authorizing the competent authorities to draft the relevant regulations	<ol style="list-style-type: none"> <li>1. The restrictions prescribed in the Foreign Exchange Control Act and the Securities and Exchange Act, except those stipulated specially in the Offshore Banking Act, do not apply to the above-mentioned business undertaken by OSUs.</li> <li>2. The finance, business, funding, risk management and the terms as well as aggregate outstanding of call loans or borrowing from other financial institutions of the OSU, and the regulations governing the selling or buying of foreign currency and other items between the foreign exchange business designated bank, offshore banking unit or offshore financial institution, shall be drafted by the FSC jointly with the CBC.</li> </ol>
5. Tax exemption	<ol style="list-style-type: none"> <li>1. The business of the OSU shall be exempt from business income tax, business tax and stamp duties; however, income, revenues and certificates derived from transactions with natural persons, juridical persons, government agencies and financial institutions within the territory of the R.O.C. shall be subject to taxation or exemption stipulated in the relevant tax laws.</li> <li>2. Interest paid by the OSU to financial institutions, natural persons, juridical persons or government agencies outside the territory of the R.O.C and income derived from the transactions of structured products, shall be exempt from withholding tax.</li> <li>3. The above-mentioned tax exemption period will be fifteen years from the time the amended articles of the Offshore Banking Act become effective.</li> </ol>

Source: CBC.

### **3.3.4 Major financial institutions and listed companies started to compile financial reports in accordance with the IFRSs from 2013**

The FSC announced the International Financial Reporting Standards (IFRSs) adoption roadmap on 14 May 2009, containing a two-phase mandatory adoption<sup>72</sup> of IFRSs and early use of IFRSs. Listed companies and major financial institutions supervised by the FSC, which are the first-phase adopters, should prepare financial statements in accordance with IFRSs from 1 January 2013. The final adoption version of IFRSs would follow the Traditional Chinese version of the 2010 edition issued by the FSC.

While financial statements under the IFRSs have the following characteristics, those who might read such financial reports should pay close attention to the following:

<sup>72</sup> First-phase adopters, including the companies listed in the stock exchange, OTC market or emerging stock markets and financial institutions supervised by the FSC (except for credit cooperatives, credit card companies, insurance brokers and insurance agents), will be required to prepare IFRSs financial statements from 2013. As for second-phase adopters, including unlisted public companies, credit cooperatives and credit card companies, they should apply IFRSs from 2015.

- Consolidated financial reports will be the main focus of disclosure requirements as they display integrated operating results of group enterprises more completely.
- The IFRSs adopt fair value measurement principles, which could better present enterprises' operating performances and enhance financial transparency, but might result in more volatile revenues in the reports.
- The IFRSs are principle-based rather than rule-based accounting standards. Report readers should be aware of the relevant notes disclosed in financial statements, such as the selection of significant accounting policies, crucial accounting estimates and valuation methods, in order to improve their understanding of enterprise value.