

15. Central Government Securities

Book-Entry System

The Bank initiated the conversion of physical bonds into the book-entry form in January 1999. By the end of 2001, 33 issues of book-entry government bonds had been made, amounting to a total of NT\$1,276 billion. With another NT\$359 billion of physical bonds being converted into book-entry form, the total outstanding amount of book-entry government bonds reached NT\$1,636 billion, which accounted for 58 percent of the total value of the bond market. Transactions in such bonds accounted for 74 percent of total secondary market transactions.

The implementation of the book-entry government bonds system has been very successful since its initiation. Compared to the old system of physical bonds, it has the advantages of much lower operational costs in issuance, smaller transaction costs for secondary-market transactions, and a lower default risk in settlements. In view of these merits, in October, the Bank further introduced book-entry treasury bills to expand the electronic trading system. Thereafter, the two were combined to become the Central Government Securities Book-entry System. Meanwhile, the Bank also improved the existing Treasury bills auction system, of which the old multiple-pricing auction method was changed to the single interest-rate auction method to effectively lower the government's cost of funding.

In addition, in July, the Ministry of Finance accepted the Bank's suggestion to issue NT\$40 billion worth of Central Government Construction Bonds with a thirty-year maturity. There are several advantages to issuing long-term bonds. For example, the government has an additional instrument for its own financial management. With the addition of longer-term government bonds, a more informative yield curve can be constructed, which is beneficial to decision making. The introduction of such bonds will also help meet investors' needs in allocating their portfolios and help expand the capital market.

In June 2000, local insurance companies were allowed to apply for participating in the auction of the central government bonds. At the end of the year, 4 insurance companies were approved by the Bank to become authorized dealers for the central government bonds. This measure allows insurance companies to have more options to run their business and their participation will also help expand the bond market.