

15. Payment and Settlement Systems

The Bank provides the payment instrument with finality, namely New Taiwan dollar notes and coins. The Bank also supervises the clearing house system to handle the clearing and settlement of checks, promissory notes, and drafts among banks. Moreover, the Bank settles government securities as the registrar and the depository in the Central Government Securities Settlement System (CGSS). To improve the efficiency of funds transfers among banks, investment trust companies, and bills finance companies, and to monitor its future developments, the Bank operates the CBC Interbank Funds Transfer System (CIFS).

Adopting Real-Time Gross Settlement Mechanism

The CIFS was established in 1995. It used to be operated in a dual system of designated-time netting and real-time gross settlement. To minimize the settlement risk, the Bank abolished designated-time settlements and introduced a complete real-time gross settlement (RTGS) system in September 2002, with parallel measures such as intra-day overdrafts, throughput guidelines and transaction queues. Aside from eliminating the settlement risk for large-amount financial transactions, the RTGS enabled the Bank to monitor the fund conditions in the payment system on a real-time basis, which helped to strengthen the effectiveness of monetary policy. Moreover, adopting the RTGS is in compliance with the international standard recommended by the Bank for International Settlements.

Developments in the Central Government Securities Settlement System

The CGSS was introduced in September 1997. The Bank initiated the conversion of physical government bonds into the book-entry form in January 1999. By the end of 2002, the total outstanding amount of book-entry government bonds reached NT\$2,023 billion, which accounted for 55 percent of the total value of the local bond market including government and corporate bonds and bank debentures. In 2002, transactions in such bonds accounted for 85 percent of total secondary market transactions. In October 2001, Treasury bills were added to the system and have been issued in the book-entry form since then. The two were combined to become the Central Government Securities Book-entry System. Since December 2002, these book-entry securities have been allowed to serve as collateral for juridical provision. The CGSS is a real-time gross settlement system for the issuance, transfer, redemption, and interest payment of central government bonds in the form of accounting entries on computer records.

Ownership of book-entry central government securities is recorded in a two-tier system of accounts. Only the clearing banks are eligible to have book-entry bond accounts and fund accounts (also serving as reserve balances) directly with the Bank. All other individuals or enterprises are required to hold such accounts with the clearing banks. By the end of 2002, book-entry transactions within a clearing bank were able to be made on a delivery-versus-payment (DVP) basis, through which the delivery of securities occurs only if the corresponding transfer of funds occurs. However, the book-entry transactions between clearing banks cannot be made on DVP. To reduce the settlement risk in interbank transactions, the Bank plans to link the CGSS with the CIFS by the end of 2003 to allow clearing banks to handle related settlements on a DVP basis.

Developments in the Check-Clearing System

The check-clearing system in Taiwan was established in the 1950s. The main business included check-clearing, check credit management and provision of check credit information. The Bank supervised the clearing house system to handle the above business. All banks in the greater Taipei area using these facilities should open reserve accounts at the Bank, and the net settlement balances will be debited or credited to these accounts. Except for the Taipei Clearing House, the Bank of Taiwan is authorized by the Bank to manage 15 clearing houses scattering around the country outside the greater Taipei area to carry out regional operations.

In July 2001, several changes were made by the Bank to strengthen credit records regarding check-clearing management through the market mechanism. Under the new practice, a customer's account is suspended as a dishonored account for three years if the customer issues three dishonored checks within a year. Suspended check writers may either clear their previous debts or open new checking accounts after the three-year waiting period. A databank is available for the public to acquire all check writers' credit records.

Consolidation of the district clearing houses was completed in 2002. Previously the business of district houses was homogeneous and highly related, but due to their mutual administrative independence, the houses were not able to use their dispersed resources effectively. In view of the public goods nature of the clearing house business and the practical needs of the houses, the Bank assisted the 16 district houses around the country to consolidate themselves into a single juridical person of association. To complete the legal procedure, the Taiwan Clearing and Settlement Development Fund was established in November 2002, meanwhile the new Taiwan Clearing House was established on November 1, 2002 to continue the regional check clearing business.