

## 15. Payment and Settlement Systems

The Bank provides the final instrument of payment, 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 the future developments, the Bank operates the CBC Interbank Funds Transfer System (CIFS). The CIFS was established in 1995 and used to be operated as 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, that enabled the Bank to monitor the fund conditions in the payment system on a real-time basis.

### **Developments in the Central Government Securities Settlement System**

The CGSS was introduced in September 1997. The Bank initiated the conversion of physical bonds into the book-entry form in January 1999. By the end of 2003, the total outstanding amount of book-entry government bonds reached NT\$2,447 billion, which accounted for 98 percent of the total value of the bond market. Transactions in such bonds accounted for 88 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. 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. 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 inter-bank transactions, the Bank plans to link the CGSS

with the CIFS 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 island outside the greater Taipei area to carry out regional operations.

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. The new Taiwan Clearing House was established on November 1, 2002 to continue the regional check clearing business.

In order to promote the efficiency of the check-clearing system, the Bank guided the Taiwan Clearing House to enlarge the computerized check-clearing operation. That is to classify Taiwan into north, middle and south exchange regions, centered and electronically processed at Taipei, Taichung and Kaohsiung, respectively. Starting from October 2003, Taoyuan, Hsinchu, Miaoli, Nantou, Yunlin, Chiayi, Tainan and Pingtung have implemented this operation.

Another measure to promote the check-clearing efficiency was to develop the eCheck plan. The Bank proposed the plan in December 2000, and the Council for Economic Planning and Development (CEPD) decided to implement the plan as a part of the Knowledge-Based Economy Development Program. The Bank invited the MOF, the MOEA, the Bankers' Association and the Taiwan Clearing House to form a special task force to set the plan in motion. Finally, under the guidance of the Bank, the Taiwan Clearing House launched the first electronic check (eCheck) system in Asia in September 2003.