

7. Treasury Agency Functions

Managing the Treasury Deposit Account

The Bank acts as the government's bank and manages the Treasury Deposit Account (TDA) on behalf of the Ministry of Finance (MOF). The Bank delegates the business of treasury transactions outside of Taipei City to 16 banks. Of these delegated banks, there are 350 branches, including 5 overseas branches, to function as treasury agents. There are another 4,423 tax service offices around the country. Delegated banks and tax service offices provide convenient access for government entities and the general public. In 2005, the Bank received a total of NT\$2,689.8 billion worth of treasury deposits, an increase of NT\$33.4 billion or 1.26 percent over the previous year. Payments made for the Treasury were NT\$2,667.7 billion, an increase of NT\$30.9 billion or 1.17 percent. The outstanding balance in the TDA was NT\$73.2 billion, an increase of NT\$22.2 billion or 43.53 percent from a year earlier.

Handling Central Government Institutions Deposits

Central government entities are allowed to make their deposits with the Bank or other delegated banks. At the end of 2005, the balances of central government entities' deposits with the Bank amounted to NT\$128.8 billion, an increase of NT\$2.7 billion or 2.14 percent over the previous year. Deposits with delegated banks were NT\$428.6 billion, declining by NT\$7.5 billion or 1.72 percent. Delegated banks are required by law to re-deposit a certain ratio of deposits with the Bank, except those in interest-bearing accounts. At the end of 2005, those re-deposits were NT\$20.8 billion, decreasing by NT\$1.4 billion or 6.31 percent from a year earlier.

Managing Central Government Securities

As a fiscal agent, the Bank, on behalf of the MOF, provides services related to the issuance, transfer, redemption, and interest payment of government securities. The Bank also conducts the auctions of central government bonds. There were 76 domestic dealers qualified to submit tenders to the Bank in these auctions. In 2005, the Bank arranged 13 issues of book-entry central government bonds with a total amount of NT\$445 billion. The weighted average yields of successful bids for these 13 issues ranged from 1.322 percent to 2.475 percent per annum. During 2005, the Bank paid a total of NT\$161.2 billion in principal and NT\$115.2 billion in interest payments for central government bonds. At the end of 2005, the outstanding amount of central government bonds was NT\$3,013.1 billion.

Managing Treasury Bills

Treasury bills are sold at a discount through auctions. Participants include banks, investment and trust companies, insurance companies, bills finance companies, and Chunhua Post Co. In the year 2005, the Bank arranged 5 issues of book-entry treasury bills with a total amount of NT\$115 billion. The weighted average yields of successful bids for these 5 issues ranged from 1.228 percent to 1.514 percent. As of the end of 2005, the outstanding amount of treasury bills was NT\$45 billion.

Launching the Trust System for Book-entry Government Bonds

In line with the passage of the *Trust Law* and the *Trust Enterprise Law*, the Bank revised pertinent administrative requirements and launched the system for the registration and trust of the book-entry central government bonds and treasury bills on July 20, 2005. This measure aims to enhance the efficiency and safety in procedures for trust business as well as protect investors' rights and interests.

Introducing the STRIPS System

STRIPS (Separate Trading of Registered Interest and Principal of Securities) are a type of coupon-bearing government bonds in which coupons and principals are traded separately. These instruments are referred to as Interest Only (IO) and Principal Only (PO) strips. In line with reforms in the domestic bond market, the Bank launched the STRIPS system on November 7, 2005. The system allows broader participation of retail investors and provides more diversified investment instruments for financial institutions.

Book-entry Government Securities

At the end of 2005, there were a total of 1,535 delegated banking units handling the registration of the book-entry securities and the conversion from physical securities to book-entry form. By the end of 2005, book-entry government bonds outstanding amounted to NT \$2,989.6 billion, accounting for 99 percent of total outstanding central government bonds. Transactions of central government bonds in the book-entry form accounted for 80 percent of total transactions in the secondary bond market.