

CHAPTER 1

CHAPTER 7

CHAPTER 2

CHAPTER 8

CHAPTER 3

CHAPTER 9

CHAPTER 4

PURPOSES
AND FUNCTIONS

CHAPTER 5

Fiscal Agency and Depository Services

CHAPTER 6

Chapter 8**Fiscal Agency
and Depository Services**

The CBC functions as the government's bank. The fiscal agency and depository services it provides to the government are critical to treasury management and implementation of monetary policy. This chapter explains the CBC's fiscal agency and depository functions, including handling central government bonds and treasury bills, and managing receipts and disbursements of treasury funds.

Section 1 Management of the Fiscal Agency and Depository

One of the core responsibilities of the CBC is to serve as the fiscal agent and depository for the central government. As the fiscal agent, it provides the Ministry of Finance (MOF) with services related to the issuance, buyback, registration, redemption, and interest payment of central government securities. As the depository, it is responsible for the custody of central government deposits, securities, and property. Some of the above functions are delegated to other financial institutions when necessary.

Transactions carried out by central government agencies through various financial institutions all over the country are reported to the CBC through a centralized treasury receipts and disbursements system. Funds received are deposited in the Treasury Deposit Account (TDA) at the MOF's disposition. Government disbursements are transferred from the TDA to regional government agencies, schools, and creditors. As the CBC is also the operator of payment systems, putting it in charge of fund transfers related to government revenues and expenditures improves the efficiency of treasury management.

From a monetary policy perspective, it is useful to the implementation of monetary policy for the CBC to act as the fiscal agent. By monitoring treasury transactions, the CBC is able to obtain timely information regarding fund conditions and adopt measures promptly to maintain monetary stability.

Section 2 Treasury Deposit Account and Deposits of Government Agencies

The management of treasury deposits is separated into two tiers. The first is the CBC's fiscal agency function delegated by the MOF. The second is the CBC's delegation of treasury management responsibilities to other financial institutions.

1. Treasury Deposit Account

The CBC handles treasury funds on behalf of the MOF through the TDA. All receipts and disbursements of the central government are made through this account based on a system of centralized collection and disbursement of fiscal revenue and expenditure.

Central government deposits are either made by the payer directly to the CBC and other agent banks or collected by agent banks stationed at airports, courts, or revenue service offices. The funds received by agent banks are immediately reported to the TDA at the CBC through the National Treasury Services Operational System.

Treasury disbursements, with the exception of special funds and custodial funds in designated accounts, are processed either by treasury checks drawn on the TDA or through the interbank remittance system.

2. The Fiscal Agency System

The CBC manages the TDA and processes treasury transactions for the Taipei city government. For other areas where it has no branch offices, the CBC delegates the handling of treasury receipts and disbursements to 15 other financial institutions and their 350 plus nationwide branches as agent banks. There are more than 4,000 revenue agent banks in the country.

In view of the importance of obtaining timely information on fiscal operations and managing fiscal services more efficiently, several changes were made to the fiscal agency system in February 1999:

- (1) The original three-tier system consisting of central, regional, and branch

account management was streamlined to a two-tier system consisting of the CBC and other agent institutions.

- (2) The CBC was authorized to delegate fiscal agency functions to banks' head offices, which would supervise the treasury operations of their subordinate branches. Before this change, the CBC directly consigned the branches of financial institutions as agent banks.
- (3) The National Treasury Services Operational System was established to transfer receipts and disbursements of treasury funds electronically on a real-time basis. This task had previously been performed manually.
- (4) The two separate systems of bank accounts and treasury accounts in agent institutions were combined into one to simplify the process.

As a result of these changes, it takes much less time to complete a transaction and the associated accounting procedure. Now it takes only one day for the funds received at agent institutions to reach the TDA at the CBC instead of five. The CBC is able to obtain the latest information on treasury transactions. This in turn helps implement monetary policy and manage treasury funds, thereby improving the overall administrative efficiency.

3. Designated Custodian Accounts of Central Government Agencies

In principle, central government agencies should deposit all the revenues they receive with the CBC. However, under certain circumstances, they may set up designated custodian accounts for special funds, governmental funds, and custodial funds with other agent banks. The setup of designated custodian accounts is subject to the approval of the MOF. The CBC also delegates overseas branches of domestic banks as fiscal agents to handle such accounts for overseas offices of the central government agencies in New York City, Los Angeles, Seattle, and Paris.

4. Depository Services

Property of central government agencies or lodgments in court in the form of securities, title deeds, bills and notes should be kept at the CBC or other local agent banks. Depositing agencies receive a monthly statement of deposited items and may request additional statements from the CBC. The launch of the

Automated Telephone Service System in March 2002 makes it possible for depositing institutions to check their account balances over the phone and obtain transaction details and application forms by fax.

Section 3 Managing Central Government Bonds and Treasury Bills

Central government bonds are mainly issued to finance major construction projects. Treasury bills are issued with maturities of less than one year to bridge the timing gap between government revenues and expenditures. Both are marketable and risk-free securities backed by the government. They are regarded as high-quality financial instruments and their yields can serve as benchmark rates for market interest rates.

1. Debt Management Services

The CBC provides services related to the issuance, registration, redemption, and servicing of central government bonds. However, the CBC is prohibited by law from purchasing central government bonds in the primary market, except when approved by the Legislative Yuan.

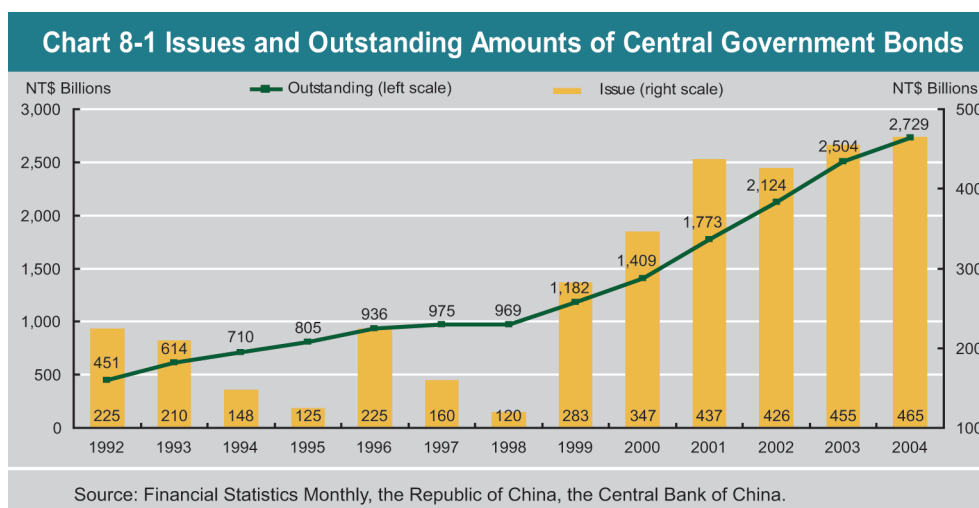
(1) Sale of Central Government Bonds

The MOF entrusted the CBC to sell central government bonds on its behalf. To this end, the CBC arranges auctions, underwriting, or subscriptions by small investors. To obtain central government bonds through auctions, qualified dealers should submit tenders electronically to the bidding system. When necessary, the CBC may have dealers underwrite an issuance. Small investors such as individuals or legal persons may purchase government bonds through certified dealers.

Prior to July 2004, auctions of central government bonds followed two formats: single-price auctions and multiple-price auctions. In 1995, zero-coupon bonds were issued twice, both through a single-price auction. All the other issues were interest-bearing bonds and were carried out through multiple-price auctions. Starting from July 2004, all government bond auctions follow the single-price method. The aim of the change is to conform

to international practice, and to encourage participants to bid more aggressively and reduce the Treasury's financing cost.

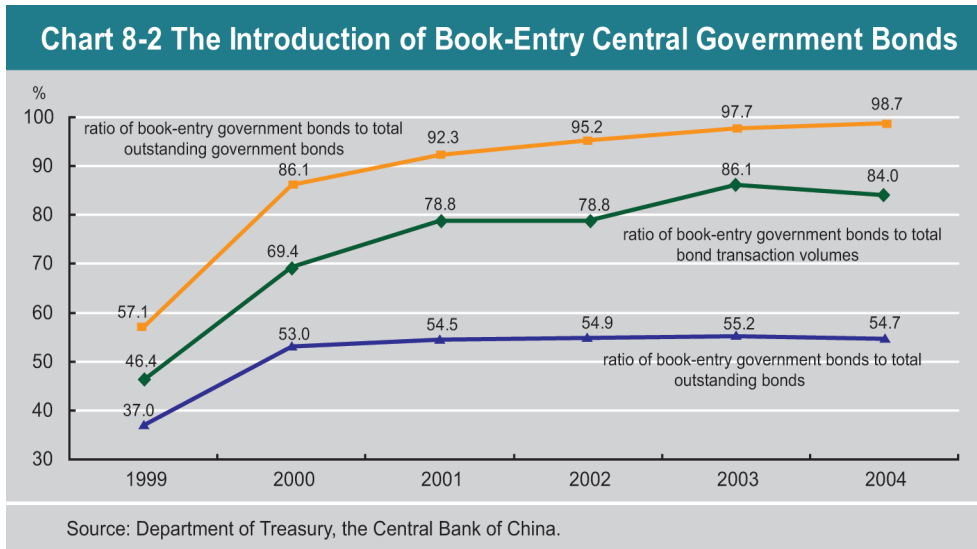
To effectively establish a benchmark yield curve and to increase bond market liquidity, the CBC introduced a new reopen system for additional issues of outstanding government bonds. The first reopen issues were auctioned in April 2003.



(2) Book-Entry Central Government Bonds

The surge in the amount of central government bonds issued after 1991 prompted the CBC to initiate the conversion from physical to book-entry bonds. The new paperless system overcomes problems of losses, forgery, and the cost of safekeeping related to physical bonds, and also promotes the development of the bond market. All central government bonds issued from September 1997 onwards have been in book-entry form.

Following the successful launch of the book-entry system, from January 1999 outstanding physical bonds have also been converted into book-entry form. In December 2002, book-entry government bonds became eligible collateral with the court. This arrangement has in turn speeded up the conversion. As of the end of 2004, book-entry government bonds accounted for 98.7 percent of total outstanding central government bonds.



2. Managing Treasury Bills

The CBC manages the issuance, buyback, servicing, and redemption of Treasury bills on behalf of the MOF. The MOF sometimes consigns the CBC to buy back Treasury bills before their maturity dates when the Treasury account is running a surplus. The CBC may also buy and sell Treasury bills through open market operations on its own account to maintain financial stability.

Treasury bills are sold at discounts through auctions. Participants are limited to dealers, i.e. banks, investment trusts, insurance companies, bills finance companies, and the Chunghwa Post Company. Other legal persons and individuals may authorize dealers to submit tenders in Treasury bill auctions.

Treasury bills have been issued in book-entry instead of physical form from October 2001 onwards. Single-price auctions, as expressed in discount rates, have since replaced multiple-price auctions to encourage competitive bidding. Buybacks of Treasury bills are also made in single-price auctions as expressed in yield rates. Bids higher than the base rate are accepted, the lowest of which shall be the buyback rate for calculating the prices payable to successful bidders. The same qualifications required for the dealers and bidding process of Treasury bill sales also apply to buybacks.

3. Electronic Bidding System for Central Government Bonds and Treasury Bills

The Electronic Bidding System (EBS) was launched in March 2001, replacing the manual process, to improve the efficiency of government securities auctions. To ensure that the electronic bidding message is authentic, secure and irrefutable, a digital signature mechanism is used for the transmission of bids. The digital signature is an electronic signature generated by using mathematical methods or other means to create a certain length of digital data encrypted by the signatory's private key that can be verified by the public key.

Electronic bids must be submitted and received prior to the closing time specified in the offering announcement. After the closing time, electronic bidding messages shall be decoded by the EBS and then transferred to the Central Government Securities Auction System for determination of auction awards.

The launch of the electronic system has reduced mistakes and other inconveniences in government securities auctions. Auction results are released about two hours earlier at 2:00 pm instead of the previous 4:20 pm. This allows the market to set prices earlier and is conducive to the development of the bond market. It also improves the quality and efficiency of the auction process as system participants can submit statements and search or print information online.

