

Exploring New Paradigms in Fixed-Income Securities Payment Transactions Amid Emerging Trends in Taiwan's Financial Market

Abstract

I. Research Motivation and Objectives

Given the recent diverse and multi-mode developments in the financial market's fund flow services in Taiwan, such as electronic payments, third-party payments, and cross-institutional shared platforms, this report explores the feasibility of utilizing innovative payment platforms. It focuses on the example of the issuance in the primary bond market, negotiation of secondary market transactions, the company's role as the principal and interest payment institution, and the payment operation for financing commercial paper issuers. The study aims to propose how market participants can utilize innovative payment platforms.

II. Conclusion and Recommendations

In the evolution of Taiwan's financial market payment models, a comprehensive analysis suggests that the Taiwan Clearing House's Electronic Automated Clearing House (TWNCH eACH) is well-suited for fixed-income products. This applies to primary market distribution in the bond market, secondary market transactions, TDCC's role as the principal and interest collection institution, and redemption payments for short-term securities. The technical feasibility is outlined below with research recommendations:

(1) Primary Bond Market

TDCC currently offers DVP (Delivery versus Payment) simultaneous fund and security transfer services, but practical challenges persist. Early paying subscribers face delays in obtaining bonds due to the issuer waiting for full payments before instructing TDCC to transfer bonds. Despite industry suggestions and discussions, the existing mechanism remains unchanged.

Integrate TWNCH eACH for subscriber deductions and issuer crediting services. While technically feasible, it requires consensus among stakeholders, further discussions with the Taipei Exchange (TPEX), and industry consensus.

(2) Secondary Bond Market

Current fund settlement for secondary market negotiated bond transactions relies on DVP, with most bond dealers and investors using FOP (Free of Payment) arrangements, incurring substantial remittance fees for large transactions.

Utilize TWNCH eACH for bond dealers' fund settlement, providing an additional method. However, as only 20 banks participate in TWNCH eACH's real-time deduction services, and industry habits favor online banking or counter transactions for large remittances, further promotion and consensus building are needed.

(3) TDCC as Principal and Interest Collection Institution

Presently, TDCC manages principal and interest payments through interbank remittances, incurring significant remittance fees. Large payments result in higher costs.

Implement TWNCH eACH for efficient redemption payments. As a single fee is charged per transaction, this can reduce the financial burden on issuers. Coordination with redemption management banks is recommended.

(4) Redemption Payments for Short-Term Securities

Current practices involve issuers remitting redemption payments to TDCC's designated bank, incurring varying remittance fees.

Employ TWNCH eACH, making TDCC the initiator and entrusting the Taiwan Cooperative Bank to facilitate direct remittance to the redemption account, simplifying short-term security redemption operations. Communication with redemption management banks is crucial for successful implementation.