

Establish an Onshore Fund Centralized Clearing Platform

Abstract

I. Content

The current fund sales agencies of investment trust companies are numerous, and each sales agency faces multiple custodian banks when processing fund transaction payments, creating a market with a many-to-many payment operation model. If an fund centralized clearing role is established between the fund sales agencies and fund custodian banks, consolidating subscription and redemption payments separately, and then conducting payment operations with relevant institutions, it can significantly streamline the number of transactions and the amount of each payment.

This study analysis encompasses the practical operations and regulatory frameworks of fund payments and settlements in major international financial markets. It compares the institutional differences and advantages and disadvantages in terms of operations, processes, and legal aspects across countries. Simultaneously considering the current situation in our country, the study explores areas for reference and provides specific recommendations. This is intended to serve as a reference for the discussion and establishment of a centralized domestic fund clearing platform.

Summarizing the analysis of the fund centralized clearing platform in major global financial markets, there are two models for payment settlement: multilateral and bilateral. For future settlement systems of a centralized clearing platform, the multilateral aggregated approach would be more appropriate. This approach allows the platform to generate settlement reports separately for each sales agency and fund account daily, handling receivables and payables only once a day. This not only reduces the costs and risks associated with the current many-to-many operation model but also improves operational efficiency. It avoids the need for significant revisions to

regulations or changes to the market settlement status for net settlement, addressing potential issues.

Once the overall market aggregate settlement operates smoothly and a supporting mechanism for credit limits is established for the multilateral net settlement mechanism, it can be extended to promote a multilateral net settlement mechanism between sales agencies and fund companies in the second phase. This would maximize the efficiency of fund utilization.

II. Conclusion and Recommendations

1. Establish an onshore fund centralized clearing platform by TDCC.
2. The primary service targets include fund sales agencies, investment trust companies, and custodian banks.
3. It is recommended to initially adopt a multilateral aggregated settlement mechanism, with the plan to later promote a multilateral net settlement after smooth operation.
4. Prioritize the use of commercial banks to handle fund payment settlement services.

To avoid operational costs for businesses dealing with two sets of operations, this study suggests a phased approach to gradually guide entities to participate. In the first phase, provide aggregated settlement services for subscription and redemption payments between sales agencies and fund accounts. This involves setting a unified payment deadline, adjusting participant information systems, establishing appropriate fee rates, and promoting market-wide participation, including direct services to investment trust customers. In the second phase, after the majority of entities have joined, analyze the market operation conditions to identify areas for further improvement, balancing the timeliness and feasibility of the overall planning.