



## **BANK OF THAILAND NEWS**

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### **Re: Taking Interbank Payment Transactions to be Transferred via BAHTNET**

Interbank payment transactions carried out by cashier cheques that accounted for 85 percent of the value of cheques cleared in the cheque clearing system. The interbank transactions are mainly interbank borrowing and lending, interbank foreign exchange trading, fund transfer for Non – Resident Baht Accounts and security trading. The cheque clearing system is a netting arrangement whereby settlement risk exists in the system. In case of a bank fails to settle its net debit balance at the end of a particular day, this creates a settlement risk as well as systemic risk in the system.

The Bank of Thailand had a policy to shift these interbank payment transactions from cheques to BAHTNET. Payment through BAHTNET, real time gross settlement system ( RTGS ) whereby each transaction is individually executed at a time, can reduce settlement risk. The BAHTNET system was developed according to the standardization of Bank of International Settlements ( BIS ). BOT realized that RTGS needed explicit liquidity in order to have transfer orders executed at appropriate manner. Thus, BOT provided intraday liquidity facility ( ILF ) for BAHTNET members for free of charge. In addition, the system provides queuing mechanism and gridlock resolution to facilitate the execution of transfer orders. Queuing mechanism whereby a fund transfer orders with insufficient funds are stacked in a queue. For Gridlock resolution system, it resolves a gridlock situation due to a deficit of liquidity. The system periodically searches the queue for combination of fund transfer orders that result net clearing position, in this case fund transfer orders are executed as continuous netting. BOT cooperated with bank representatives from the Thai Bankers' Association and the Foreign Bankers' Association had reached the common agreement to have interbank payment transactions transferred via BAHNET starting from 10 March 2000.

Since 10 March 2000, the system had smoothly run. Mostly, member banks pledged enough securities as collateral to the Bank of Thailand for ILF worth 54 billion baht and the ratio of executed transfer orders met the BOT's satisfy. Some member banks pledged a few securities as collateral for ILF so there are transfer orders in queue until at the end of day so BOT followed up and persuaded them to pledge more securities appropriate to their BAHTNET transactions.

After shifting interbank payment transactions from cheques to BAHTNET, the value of interbank cheque cleared in Bangkok and Metropolitan area decreased 80.7 percent with the total value of 62.8 billion baht. The daily average of volume of cleared cheque was still 200,000 items. In the opposite, the daily average volume of transfer orders of BAHTNET increased 1.2 times approximately 2,664 orders with the value increased 9.6 times approximately 280.1

billion baht. The credit line for ILF, which was over requirement, was 19.2 percent of the total of value of transfer orders via BAHTNET. The member banks use maximum ILF at 55.2 percent of the credit line for ILF 7.1 percent of total value of transfer orders via BAHTNET during 10.00 am. – 11.00 am. Because the member banks can't use clearing fund unit they are able to settle net clearing position for return round at 11.00 am. on the following morning.

**Bank of Thailand**

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