3. Foreign Exchange Management

Taiwan is a small open economy which adopts a managed float exchange rate regime. Under the regime, the NT dollar exchange rate is in principle determined by market forces. In the event of excessive exchange rate volatility, the Bank would conduct "leaning against the wind" operations to stave off adverse implications for economic and financial stability. The Bank continues employing a flexible exchange rate policy and maintaining the dynamic stability of the NT dollar exchange rate. The Bank is also committed to facilitating the order and development of the foreign exchange (FX) market.

Promoting the Sound Development of the Foreign Exchange Market

The NT dollar exchange rate vis-à-vis the US dollar (USD) was generally steady in the first four months of 2019. However, this was followed by a series of depreciations during May to early August when several flare-ups of US-China trade tensions markedly weakened the renminbi, dragging down the currencies of the related supply chain economies including Taiwan. After mid-August, the global market size of negative-yielding bonds continued growing to new record levels as investors responded to global economic slowdown, trade policy uncertainties, and monetary easing by major central banks. Against this backdrop, yield-seeking international capital flows turned to Asia, favoring Taiwan in particular, and the NT dollar appreciated again.

In October, the US signed the "phase one" trade deal with China, and Britain and the European Union (EU) also approved an agreement on the UK's withdrawal from the EU. Those deals cooled trade tensions and the risk of a so-called "hard Brexit," bolstering non-USD currencies. Furthermore, foreign investors increased stock buying in the Taiwan market on the back of trade diversion benefits and repatriating Taiwanese investment flows. The NT dollar strengthened as a result.

In general, Taiwan's foreign exchange market witnessed a greater forex demand than supply in the first half of 2019, prompting the Bank to sell a total of US$1.1 billion to ensure US dollar liquidity. During the latter half of 2019, supply exceeded demand as foreign capital surged into the local FX market, and the Bank conducted smoothing operations accordingly. For the year as a whole, the Bank's net forex buying amounted to US$5.5 billion.

Foreign Currency Call Loan and Swap Market Management

In order to provide the financial system with sufficient foreign currency liquidity to meet funding needs, including those for corporations to venture into overseas markets, the Bank appropriated seed capital for the Taipei Foreign Currency Call Loan Market, including US$20 billion, €1 billion and ¥80 billion.

Furthermore, through foreign currency call loans and swaps conducted by authorized foreign exchange banks, the Bank continued to support corporations and insurance companies by meeting the needs for foreign currency liquidity and exchange rate hedging.

Foreign Exchange Reserve Management and Foreign Currency Liquidity of the Bank

The Bank manages its foreign exchange reserves based on the considerations of liquidity, safety, and profitability. The Bank keeps watch on the global economic and financial situation and adjusts the FX reserves as warranted.

Currently, US dollar assets make up a larger share in Taiwan's foreign exchange reserves than the COFER (Currency Composition of Official Foreign Exchange Reserves) average published by the IMF. As of the end of 2019, Taiwan's total FX reserves stood at US$478.1 billion with an increase of US$16.3 billion or 3.5% compared to the end of 2018, mainly attributable to returns from FX reserve investments. Combining the reserves held in gold valued at US$5.1 billion, the Bank's reserves assets totaled US$483.2 billion at the end of the year.

While FX reserves are the Bank's foreign currency claims on nonresidents, such claims on residents consist of US dollars held under swap agreements, foreign currency deposits with and loans to domestic banks, which amounted to US$100.3 billion, US$32.2 billion, and US$6.3 billion, respectively, at the end of 2019.

In terms of foreign currency liquidity, the total amount, including foreign currency claims and gold, reached US$625.6 billion at the end of 2019.

Capital Flow Management

In line with its efforts to promote financial liberalization and internationalization, the Bank's FX management mainly relies on the market mechanism and capital can, in principle, flow freely in and out of Taiwan. As of 2019, foreign currency capital not involving NT dollar conversion has been able to flow freely. Additionally, there are no restrictions on financial flows involving NT dollar conversion for goods and service trade, nor for direct and securities investments approved by the competent authorities.

However, regulation exists for short-term remittances. Annual remittances for an individual resident within US$5 million and for a juridical person within US$50 million can be settled by banks directly, while annual remittances above the aforementioned amounts require the approval of the Bank. Each transaction for a nonresident within US$0.1 million can be settled by banks directly, whereas any transaction amount above that threshold requires the approval of the Bank.

Key measures with regard to the management of capital flows in 2019 included:

(1) Amending Corresponding FX Regulations

Article 27 of the *Directions for Banking Enterprises While Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions* was amended with immediate effect on January 29, 2019. Accordingly, private employment service organizations no longer need to present a document of evaluation certification when making declarations of foreign exchange settlements relating to salaries of foreign workers in Taiwan on their behalf, as such a document was deemed irrelevant to the purpose of this legislation.

(2) Promoting the Internationalization of Taiwan's Capital Market

In 2019, cases of fund-raising by domestic and foreign institutions through bond issuance, approved by or filed for record to the Bank, are shown in the following table.

Fund-Raising by Domestic and Foreign Institutions in 2019

Institution	Method	Number	Amount
Foreign companies	IPO on TWSE & TPEx and registration on the Emerging Stock Board	16	NTD 5.12 billion
	NTD convertible bonds	12	NTD 7.99 billion
	International bonds	42 10 2	USD 23.38 billion RMB 5.97 billion ZAR 7.83 billion
	NTD-denominated foreign bonds	1	NTD 12.0 billion
	Overseas convertible bonds	1	USD 0.1 billion

Note: TWSE is the Taiwan Stock Exchange; TPEx is the Taipei Exchange.
Source: Department of Foreign Exchange, CBC.

(3) Approving Residents' Investments in Foreign Securities

In 2019, the Bank approved the following investments in foreign securities by residents.

CBC-Approved Residents' investments in Foreign Securities

Institution	Method/Instrument	Amount
Securities investment trust enterprises (SITEs)	130 domestic SITE funds (including 57 NTD-foreign multiple currency SITE funds)	NTD 3,534.8 billion (including multiple currency funds: NTD 1,402.0 billion)
	2 SITE private funds	NTD 21.0 billion
	4 domestic futures trust funds for unspecified persons	NTD 65.0 billion
Life insurance companies	Non-discretionary money trusts managed by financial institutions	USD 0.65 billion
	Investment for their own accounts	USD 4.35 billion
	Lowering overseas investment hedge positions	USD 5.49 billion
Five major government pension funds and employment insurance fund	Investment for their own accounts	USD 6.13 billion

Source: Department of Foreign Exchange, CBC.

Management of FX Business of Financial Institutions

(1) Authorized FX Banks

Pursuant to the *Central Bank of the Republic of China (Taiwan) Act* and the *Foreign Exchange Regulation Act*, the Bank reviews, authorizes and supervises banks to conduct FX business accordingly. In 2019, the Bank continued to approve bank branches as authorized FX banks and loosened restrictions on FX derivative product business in order to facilitate authorized FX banks' competitiveness and service quality. Related developments in 2019 were as follows.

At the end of 2019, there were 3,461 authorized FX banks in total, which included 37 head offices and 3,386 branches of domestic banks, 35 branches of foreign banks, three branches of Mainland Chinese banks, as well as 4,690 authorized money exchangers, post offices, and financial institutions authorized to engage in basic FX business.

The Bank amended the *Regulations Governing Foreign Exchange Business of Banking Enterprises* on February 15, 2019, with the following changes: (1) adding provisions governing the qualifications for internet-only banks, which would be allowed to set up in Taiwan in the same year, to apply to become authorized foreign exchange banks; (2) revising provisions governing the installation of foreign currency ATMs and those governing FX business conducted through electronic or communications equipment. The Bank also amended the *Directions Governing Authorized Banks* *for Operating Foreign Exchange Businesses Through Electronic and Communications Equipment* on the same day, broadening the stipulated business scope, streamlining the application procedures, and renaming the law as the *Directions Governing Authorized Banks for Operating Foreign Exchange Businesses Through Electronic or Communications Equipment*.

(2) Insurance Companies

As of the end of 2019, the numbers of insurance companies allowed to engage in foreign currency insurance business for traditional and investment-linked foreign currency insurance products were 20 and 21, respectively. The foreign currency premium revenue decreased by US$1.6 billion, or 4.69%, from the previous year to US$31.9 billion in 2019.

(3) Securities Firms

As securities firms would now be allowed to issue exchange-traded notes (ETNs) that track foreign underlying indices, the Bank stipulated on February 18, 2019, the procedures and compliance matters governing the application by securities firms to the Bank.

In 2019, the Bank also approved more cases for securities firms to conduct FX business. As shown in the following table, the most approved cases were five for "proprietary foreign securities trading neither belonging to investment with their own funds nor for hedging needs," followed by two cases in each of the categories of "non-discretionary individually managed money trust wealth management," "structured notes linked to foreign financial products," and "issuance of ETNs tracking foreign underlying indices."

Approved Cases for Securities Firms to Conduct FX Business in 2019

FX Business	Number
Agents for foreign bond trading	1
Proprietary foreign securities trading neither belonging to investment with their own funds nor for hedging needs	5
Foreign currency spot exchange transactions	1
Accepting orders to trade foreign securities	1
Underwriting of international bonds	1
Non-discretionary individually managed money trust wealth management	2
Structured notes linked to foreign financial products	2
Issuance of ETNs tracking foreign underlying indices	2

Source: Department of Foreign Exchange, CBC.

(4) Investment Trust/Consulting Firms, and Futures Firms

The approved cases granted by the Bank for investment trust and investment consulting firms and futures firms to conduct FX business as of 2019 are shown in the following table.

Approved Cases for Investment Trust/Consulting Firms and Futures Firms to Conduct FX Business in 2019

Institution	FX Business	Number
Investment trust and investment consulting firms	Serving as mandated institution of private offshore funds	3
	Foreign currency discretionary investments in foreign securities	3
	Conducting public offer or private placement of foreign currency-denominated funds	2

Source: Department of Foreign Exchange, CBC.

Foreign Currency Clearing Platform

Taiwan's foreign currency clearing platform, consigned by the Bank and established by the Financial Information Service Co., was inaugurated in 2013 and has continued to function smoothly ever since. The platform offers services for domestic and cross-border remittances (including cross-strait) of the renminbi and the Japanese yen, and domestic remittances of the US dollar, the euro, and the Australian dollar. The platform adopts a payment-versus-payment (PVP) mechanism among banks, a liquidity-saving mechanism for foreign currency remittances, and a delivery-versus-payment (DVP) mechanism for foreign currency bonds and bills.

Domestic Development of Foreign Currency Settlement Business in 2019

Currency	Domestic Participating Units	Settlements in 2019	
		Transactions	Amount
US dollar	69	1,110,204	USD1,934.3 billion
Renminbi	61	272,317	RMB 457.4 billion
Yen	41	30,428	JPY 1,247.3 billion
Euro	40	19,623	EUR 6.4 billion
Australian dollar	29	17,321	AUD 1.2 billion

Source: Department of Foreign Exchange, CBC.

Offshore Banking

In line with the amendment to the *Company Act* that no longer required foreign companies to gain authorization to be entitled with legal capacity in Taiwan, the Bank and the Financial

Supervisory Commission jointly amended the *Offshore Banking Act Enforcement Rules* and the *Regulations Governing the Establishment and Compliance Matters of Offshore Banking Branches*, effective November 11, 2019.

(1) Offshore Banking Units (OBUs)

At the end of 2019, the number of OBUs came to 59, and total OBU assets increased by US$20.89 billion, or 10.4%, over the previous year to US$221.86 billion. The net income after tax of all OBUs amounted to US$3.21 billion, increasing US$0.37 billion, or 13.1%, from a year before.

(2) Offshore Securities Units (OSUs)

At the end of 2019, the number of OSUs stood at 19, and total OSU assets reached US$6.17 billion, an increase of US$1.81 billion or 41.6%. The net income after tax of OSUs turned from a net loss of US$20.09 million the previous year into a net gain of US$150.15 million, representing an increase of US$170.24 million.

(3) Offshore Insurance Units (OIUs)

As of the end of 2019, the number of OIUs was 20, with a total amount of assets of US$0.94 billion, which was US$0.13 billion or 16.3% more than the previous year end. The net income after tax of all OIUs became a net loss of US$0.17 million, decreasing by US$2.10 million from the positive gain of US$1.93 million in 2018.