

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 market.

Promoting the Sound Development of the Foreign Exchange Market

Owing to the global coronavirus pandemic in 2020, major central banks conducted expansionary monetary policies, creating huge spillover effects. Coupled with repatriation of offshore funds by overseas Taiwanese firms, there were huge fluctuations of the NT dollar exchange rate vis-à-vis the US dollar. The Bank therefore stepped into the foreign exchange market through two-way interventions to maintain dynamic stability of the NT dollar exchange rate. For the year as a whole, net purchases of foreign exchange by the Bank amounted to US\$39.1 billion. The NT dollar exchange rate against the US dollar remained more stable than the Singapore dollar, the euro, the Japanese yen, and the Korean won.

In 2020, the Bank continued to implement the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions to maintain an orderly market. Moreover, reinforced examination efforts were made to ensure that forward transactions were based only on actual transactions. The Bank also urged authorized banks to enhance their exchange rate risk management in order to reduce market exposure of individual banks and to contain systemic risk. The Bank continued to strengthen targeted examination on foreign exchange business to help ensure a sound foreign exchange market.

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 foreign exchange 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 2020, Taiwan's total foreign exchange reserves stood at US\$529.9 billion with an increase of US\$51.8 billion or 10.8% compared to the end of 2019, mainly attributable to returns from foreign exchange reserve investments. Combining the reserves held in gold valued at US\$5.4 billion, the Bank's reserves assets totaled US\$535.3 billion at the end of the year.

While foreign exchange 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\$94.5 billion, US\$41.3 billion, and US\$7.5 billion, respectively, at the end of 2020.

In terms of foreign currency liquidity, the total amount, including foreign currency claims and gold, reached US\$685.7 billion at the end of 2020.

Capital Flow Management

In line with its efforts to promote financial liberalization and internationalization, the Bank's foreign exchange management mainly relies on the market mechanism and capital can, in principle, flow freely in and out of Taiwan. As of 2020, financial capital flows not involving NT dollar conversion have 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.

Regulation only 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. Measures with regard to the management of capital flows in 2020 included:

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

In 2020, 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 2020

Institution	Method	Number	Amount
Foreign companies	IPO on TWSE & TPEx and registration on the Emerging Stock Board	17	NTD 25.63 billion
	NTD convertible bonds	17	NTD 8.85 billion
	Foreign currency-denominated bonds	48 11 5	USD 55.7 billion RMB 17.11 billion ZAR 4.09 billion
	NTD-denominated bonds	1	NTD 15 billion
	Overseas convertible bonds	1	USD 0.5 billion
Domestic companies (and domestic branches)	Overseas convertible bonds	4	USD 1.16 billion

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

(2) Approving Residents' Investments in Foreign Securities

CBC-Approved Residents' investments in Foreign Securities in 2020

Institution	Method/Instrument	Amount
Securities investment trust companies (SITEs)	86 domestic SITE funds (including 56 NTD-foreign multiple currency SITE funds)	NTD 1,714.3 billion (including multiple currency funds 1,185.5 billion)
	3 SITE private funds	NTD 4.2 billion
	5 domestic futures trust funds for unspecified persons	NTD 100 billion
Life insurance companies	Non-discretionary money trusts managed by financial institutions	USD 0.65 billion
	Investment for their own accounts	USD 0.52 billion
Five major government pension funds and employment insurance funds	Investment for their own accounts	USD 3.74 billion

Source: Department of Foreign Exchange, CBC.

Management of Foreign Exchange Business of Financial Institutions

(1) Authorized foreign exchange 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 foreign exchange

business accordingly. In 2020, the Bank continued to approve bank branches as authorized foreign exchange banks and loosened restrictions on foreign exchange derivative product business in order to facilitate authorized foreign exchange banks' competitiveness and service quality. Major developments in 2020 were as follows.

At the end of 2020, there were 3,465 authorized foreign exchange banks in total, which included 37 head offices and 3,390 branches of domestic banks, 35 branches of foreign banks, 3 branches of Mainland Chinese banks, as well as 4,651 authorized money exchangers, post offices, and financial institutions authorized to engage in basic foreign exchange business.

The Bank announced on December 28, 2020, that it would amend the *Regulations Governing Foreign Exchange Business of Banking Enterprises* to simplify procedures and qualifications for commercial banks to apply to become authorized foreign exchange banks. Restrictions were relaxed for authorized banks to issue foreign currency bank debentures linked to derivatives or structured notes.

(2) Insurance Companies

As of the end of 2020, the numbers of insurance companies allowed to engage in traditional and in investment-linked foreign currency insurance business were both 21. The foreign currency premium revenue increased by US\$2.47 billion, or 7.7%, from the previous year to US\$34.41 billion in 2020.

(3) Securities Firms

In 2020, approved cases for securities firms to conduct foreign exchange business were as follows.

Approved Cases for Securities Firms to Conduct Foreign Exchange Business in 2020

Foreign Exchange Business	Number
Agents for foreign bond trading	1
Proprietary foreign securities trading neither belonging to investment with their own funds nor for hedging needs	1
Foreign currency spot exchange transactions	1
Accepting orders to trade foreign securities	1
Structured notes linked to foreign financial products	1
Issuance of exchange trade notes tracking underlying foreign indices	1

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 foreign exchange business as of 2020 are shown in the following table.

Approved Cases for Investment Trust/Consulting Firms and Futures Firms to Conduct Foreign Exchange Business in 2020

Institution	Foreign Exchange Business	Number
Investment trust and investment consulting firms	Serving as mandated institutions of private offshore funds	4
	Foreign currency discretionary investments in foreign securities	4
Futures and leveraged dealers	Foreign exchange margin trading	1
	Business engaged in gold or crude oil contracts for difference trading	3

Source: Department of Foreign Exchange, CBC.

Foreign Currency Clearing Platform

Taiwan's foreign currency clearing platform was consigned by the Bank and established by the Financial Information Service Co. The platform offers services for domestic and cross-border (including cross-strait) remittances 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. It has continued to function smoothly since its inauguration in 2013.

Domestic Development of Foreign Currency Settlement Business in 2020

Currency	Domestic Participating Units	Settlements in 2020	
		Transactions	Amount
US dollar	69	1,185,559	USD2,002.3 billion
Renminbi	61	300,719	RMB 504.2 billion
Yen	39	29,922	JPY 997 billion
Euro	39	18,225	EUR 4.8 billion
Australian dollar	29	21,439	AUD 1.2 billion

Source: Department of Foreign Exchange, CBC.

Offshore Banking

In line with the measures and policies adopted by the Financial Supervisory Commission, the Bank allowed OBUs to accept domestic juridical persons' opening of foreign currency credit accounts for international fund transfer. The Bank also relaxed regulations on OBUs and offshore securities units (OSUs), allowing them to provide more diversified financial services and products to high-net-wealth customers so as to further promote the quality of wealth management services.

(1) OBUs

At the end of 2020, the number of OBUs came to 59, and total OBU assets increased by US\$17.6 billion, or 7.9%, over the previous year to US\$239.46 billion. The net income after tax of all OBUs amounted to US\$3.53 billion, increasing by US\$0.32 billion, or 9.9%, from a year before.

(2) OSUs

At the end of 2020, the number of OSUs stood at 19, and total OSU assets reached US\$5.81 billion, a decrease of US\$0.36 billion or 5.8%. Nevertheless, the net income after tax of the business increased by US\$33.7 million, or 22.5%, to US\$183.9 million for 2020.

(3) Offshore Insurance Units (OIUs)

As of the end of 2020, the number of OIUs was 20, with a total amount of assets of US\$0.99 billion, which was US\$47 million or 5.0% more than the previous year end. The net income after tax of all OIUs was US\$2.4 million, an increase by US\$2.60 million from 2019.