

3. Foreign Exchange Management

Promoting the Sound Development of the Foreign Exchange Market

(1) Flexible foreign exchange rate management to maintain dynamic stability of the NT dollar exchange rate

Taiwan is a small open economy with high dependence on foreign trade and susceptible to potential impacts from sharp exchange rate fluctuations. Therefore, Taiwan adopts a managed float exchange rate regime. Under this regime, the NT dollar exchange rate is in principle determined by market forces. However, in the event of excessive exchange rate volatility, the Bank would conduct appropriate smoothing operations to stave off adverse effects for economic and financial stability and to facilitate an orderly foreign exchange market.

In recent years, massive and frequent movement of international short-term capital has become the driving force of exchange rate changes. So as to mitigate excessive exchange rate volatility and to improve market efficiency, the Bank has adopted "leaning against the wind" operations to prevent erratic flows from disrupting the foreign exchange market. A stable foreign exchange market is conducive to long-term economic stability and development.

In the first half of the year 2021, even though Taiwan was faced with a domestic flare-up of COVID-19 infections, its own outstanding export performance and the US\$1.9 trillion American Rescue Plan drove the NT dollar to appreciate against the US dollar, and created wider fluctuations of the NTD exchange rate. In the second half of the year, against the backdrop of the spread of coronavirus variants all over the world, the Fed's monetary policy tightening to combat inflation, an easing of Taiwan's pandemic outbreak, and continuous double-digit export growth, the NTD exchange rate fluctuated in a relatively narrow range. To maintain dynamic stability of the NT dollar exchange rate, the Bank continued to conduct two-way smoothing operations in the forex market. For the year as a whole, net purchases by the Bank amounted to US\$9.1 billion, and variability in the NT dollar exchange vis-à-vis the US dollar was smaller than that of major currencies such as the Singapore dollar, the Japanese yen, and the euro.

(2) Maintaining an orderly forex market and promoting sound market development

In 2021, the Bank carried on with a variety of policies to effectively manage the foreign exchange market:

- a. The Bank continued to implement the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions.
- b. The Bank continued to strengthen management to ensure that forward transactions were based on real transactions.
- c. The Bank urged authorized banks to enhance their exchange rate risk management in order to reduce market exposure of individual banks and to contain systemic risk.
- d. 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

- (1) 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.
- (2) 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 a close watch on the global economic and financial situation and adjusts the portfolio of foreign exchange reserves accordingly. Currently, financial assets denominated in US dollars 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 2021, Taiwan's total foreign exchange reserves stood at US\$548.4 billion with an increase of US\$18.5 billion or 3.5% compared to the end of 2020, mainly attributable to returns from foreign exchange reserve investments and smoothing operations. Combining the reserves held in gold valued at US\$5.6 billion, the Bank's reserves assets totaled US\$554.0 billion at the end of the year.

Foreign exchange reserves are the Bank's foreign currency claims on nonresidents. On the other hand, foreign currency claims on residents consist of US dollars held under swap agreements and foreign currency deposits and loans to domestic banks, which amounted to US\$91.9 billion, US\$43.4 billion, and US\$7.2 billion, respectively, at the end of 2021.

In terms of foreign currency liquidity, the total amount, including foreign currency claims and

gold, reached US\$700.5 billion at the end of 2021.

Capital Flow Management

In line with its efforts to promote financial liberalization and internationalization, the Bank's foreign exchange management has mainly been focusing on maintaining the market mechanism, and financial capital can, in principle, flow freely in and out of Taiwan. As of 2021, 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 2021 included:

(1) As the Financial Supervisory Commission amended *The Act Governing Electronic Payment Institutions*, which allows electronic payment institutions and foreign migrant worker remittance institutions to undertake small amount remittance business, the Bank therefore amended both the *Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions* and the *Directions for Banking Enterprises While Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions* accordingly, effective July 1, 2021.

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

In 2021, cases of fund-raising by domestic and foreign institutions through securities issuance, approved by or filed for record to the Bank, are shown in the following table.

Institution	Fund-Raising Method	Number	Amount	
Foreign Companies	IPO on TWSE & TPEX and registration on the Emerging Stock Board	15	NTD 21.48 billion	
	NTD convertible bonds	9	NTD 10.37 billion	
	Foreign currency-denominated bonds		48	USD 38.28 billion
			11	RMB 14.02 billion
			9	AUD 1.14 billion
			6	ZAR 4.45 billion
	Overseas convertible bonds	1	USD 0.13 billion	
Overseas depositary receipts	1	USD 0.1 billion		
Domestic companies (and domestic branches)	Overseas convertible bonds	5	USD 2.97 billion	
	Overseas depositary receipts	3	USD 0.52 billion	

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

(3) Approving Residents' Investments in Foreign Securities

Institution	Method/Instrument	Amount
Securities investment trust companies (SITEs)	63 domestic SITE funds (including 47 NTD-foreign multiple currency SITE funds)	NTD 1,300.8 billion (including 853.5 billion multiple currency funds)
	4 SITE private funds	NTD 4.8 billion
Life insurance companies	Non-discretionary money trusts managed by financial institutions	USD 0.6 billion
	Investment for their own accounts	USD 0.02 billion
Five major government pension funds and employment insurance funds	Investment for their own accounts	USD 7.57 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 2021, 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 2021 were as follows.

- a. At the end of 2021, 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, three branches of Mainland Chinese banks, as well as 4,647 authorized money exchangers, post offices, and financial institutions authorized to engage in basic foreign exchange business.
- b. The Bank amended the *Regulations Governing Foreign Exchange Business of Banking Enterprises* on January 28, 2021 to simplify procedures and qualifications for commercial banks to apply to become authorized foreign exchange banks. Restrictions were also relaxed for authorized banks to issue foreign currency bank debentures linked to derivatives or structured notes.
- c. The Bank amended the *Directions Governing Authorized Banks for Operating Foreign Exchange Businesses Through Electronic or Communications Equipment* on December 30, 2021. Authorized banks can undertake customers' foreign exchange business through electronic or communications equipment without making a prior application as long as such business does not involve NT dollar conversion.

(2) Insurance Companies

As of the end of 2021, 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\$3.55 billion, or 10.3%, from the previous year to US\$37.96 billion in 2021.

(3) Securities Firms and Bills Finance Companies

a. The Bank amended the regulations on limits on foreign currency bills and bonds as well as foreign currency borrowings and loans by bills finance companies and broadened the scope of counterparties on October 20, 2021.

b. Approved cases for securities firms and bills finance companies to conduct foreign exchange business in 2021 are listed in the following table.

Institutions	Foreign Exchange Business	Number
Securities Firms	Underwriting of international bonds denominated in foreign currency	1
	Proprietary foreign securities trading neither belonging to investment with their own funds nor for hedging needs	3
	Spot exchange transactions between NT dollar and foreign currencies	1
	Foreign currency spot exchange transactions	1
	Trading and exchanging beneficial certificates of funds	1
	Accepting orders to trade onshore and offshore funds	1
	Structured notes linked to foreign financial products	3
	Issuance of exchange traded notes tracking underlying foreign indices	1
Bills Finance companies	Auditing, underwriting, brokering, proprietary trading business of foreign currency bills	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 (concurrently operating as a leverage transaction merchant) to conduct foreign exchange business as of 2021 are shown in the following table.

Institutions	Foreign Exchange Business	Number
Investment trust and investment consulting firms	Serving as mandated institutions of private offshore funds	4
	Conducting public offer or private placement of foreign currency-denominated funds	1
Futures firms (concurrently operating as a leverage transaction merchant)	Foreign currency margin trading	1
	Contracts for difference linked to silver, foreign equities or ETFs, or foreign stock market indices	3

Source: Department of Foreign Exchange, CBC.

(5) Foreign Exchange Brokers

To diversify equity ownership and to improve management on foreign exchange brokers, the Bank amended the *Regulations Governing Foreign Exchange Brokers* on September 14, 2021. The amendments included broadening the scope of related parties, applying the investment cap to the combined amount of investments by stipulating different investment caps according to the type of financial institution to which their related parties belong and adding in required qualifications for promoters, directors and supervisors, and responsible persons of foreign exchange brokers.

Foreign Currency Clearing Platform

(1) 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 Chinese 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.

(2) Domestic Development of Foreign Currency Settlement Business in 2021

Currency	Domestic Participating Units	Settlements in 2021	
		Number of Transactions	Amount
US dollar	69	1,317,040	USD 1,783.1 billion
Renminbi	60	319,596	RMB 606.6 billion
Yen	39	31,636	JPY 1,131.9 billion
Euro	39	18,034	EUR 6.2 billion
Australian dollar	30	27,175	AUD 1.3 billion

Source: Department of Foreign Exchange, CBC.

Offshore Banking

(1) The Bank collaborated with the Financial Supervisory Commission in its amendment to the *Regulations Governing Domestic Juridical Persons Opening Accounts for the Purpose of Handling Loan-related Receipts and Disbursements in Offshore Banking Units*, including relaxing the restriction on transaction counterparties of the loan-related accounts to meet the practical need for credit business. The amended draft entered the preview process on December 8, 2021.

(2) Financial Status

a. Offshore Banking Units (OBUs)

At the end of 2021, the number of OBUs came to 59, and total OBU assets increased by US\$10.46 billion, or 4.4%, over the previous year to US\$249.92 billion. The net income after tax of all OBUs amounted to US\$3.22 billion, decreasing by US\$0.31 billion, or 8.8%, from a year before.

b. Offshore Securities Units (OSUs)

At the end of 2021, the number of OSUs stood at 19, and total OSU assets reached US\$4.54 billion, a decrease of US\$1.27 billion or 21.9%. The net income after tax of the business also decreased by US\$130.9 million, or 71.2%, to US\$53.0 million for 2021.

c. Offshore Insurance Units (OIUs)

As of the end of 2021, the number of OIUs was 20, with a total amount of assets of US\$1 billion, which was US\$0.01 billion or 1.0% more than the previous year end. The net income after tax of all OIUs decreased to US\$18.3 million, a decline of US\$20.7 million or 862.5% from 2021.