

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

As Taiwan is a small open economy with high dependence on foreign trade, the Bank suitably adopts a managed float exchange rate regime to contain sharp exchange rate fluctuations. Under this regime, the NT dollar exchange rate is in principle determined by market forces. However, in the event of disorderly movements (such as mass inflows and outflows of short-term capital) and seasonal factors, the Bank would conduct appropriate smoothing operations to stave off adverse effects for economic and financial stability and to maintain an orderly foreign exchange market.

In recent years, massive and frequent movement of international short-term capital has become the main driving force of exchange rate changes. 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. The dynamic stability of the NT dollar exchange rate is viewed as conducive to long-term economic stability and sound development.

In 2022, the Russia-Ukraine war and China's strict epidemic prevention measures pushed up commodity and energy prices, causing global inflation to go up sharply. As the Fed's aggressive rate hikes to combat high inflation triggered fire sales of risky assets worldwide, a consequent capital flight to US dollar assets boosted USD strength and the NTD thus depreciated before rebounding in the fourth quarter as softer inflation pressures bolstered expectations of slower Fed rate hikes and weakened the USD.

The NTD exchange rate fluctuated significantly because of selling from foreign institutional investors as well as international economic impacts. To maintain the 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 sales by the Bank amounted to US\$13 billion. NTD exchange rate volatility was lower compared to the SGD, EUR, KRW, and JPY in 2022.

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

In 2022, the Bank carried out appropriate measures to effectively manage the foreign exchange market. These measures included:

- A. Implementing the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions.
- B. Strengthening off-site monitoring management to ensure that forward transactions were based on real transactions to curb foreign exchange speculation.
- C. Urging authorized banks to enhance their exchange rate risk management in order to reduce market exposure of individual banks and to contain systemic risks.
- D. Strengthening targeted examinations 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 2022, Taiwan's total foreign exchange reserves stood at US\$554.9 billion with an increase of US\$6.5 billion or 1.2% compared to the end of 2021, mainly attributable to returns from foreign exchange reserve investments. Combining the reserves held in gold valued at US\$5.0 billion, the Bank's reserves assets totaled US\$560 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 with and loans to domestic banks, which amounted to US\$85.0 billion, US\$34.8 billion, and US\$7.7 billion, respectively, at the end of 2022.

In terms of foreign currency liquidity, the total amount (including foreign currency claims and gold) reached US\$690 billion at the end of 2022.

Capital Flow Management

In line with the 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 2022, 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. The amount of accumulated 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. For a nonresident, each transaction 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 2022 included:

(1) In line with the amendment to the *Civil Code* to lower the age of majority from 20 to 18, effective January 1, 2023, and to make clear the reporting procedures for companies and limited partnerships, the Bank amended the *Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions*. Meanwhile, to accommodate the aforementioned amendment and to further simplify the procedures, the Bank amended the *Directions for Banking Enterprises While Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions* and the *Directions for Domestic Security Firm Approved to Conduct Foreign Exchange Business While Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions*. The above-mentioned amendments were effective January 1, 2023.

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

In 2022, 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	10	NTD 6.3 billion
	NTD convertible bonds	8	NTD 4.17 billion
	NTD denominated bonds	1	NTD 6.03 billion
	Foreign currency-denominated bonds	123	USD 16.53 billion
		9	RMB 2.53 billion
		9	AUD 0.59 billion
	Overseas depositary receipts	1	USD 0.39 billion
Domestic companies (and domestic branches)	Overseas depositary receipts	4	USD 1.42 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)	64 domestic SITE funds (including 44 NTD-foreign multiple currency SITE funds)	NTD 1,150.4 billion (including 822 billion in multiple currency funds)
	2 SITE private funds	NTD 26 billion
Life insurance companies	Non-discretionary money trusts managed by financial institutions	USD 0.43 billion
	Investment in their own accounts	USD 0.17 billion
Five major government pension funds and employment insurance funds	Investment in their own accounts	USD 20.81 billion

Source: Department of Foreign Exchange, CBC.

Management of Foreign Exchange Business of Financial Institutions

(1) Authorized foreign exchange banks

Under *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 2022, 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 2022 were as follows.

- A. At the end of 2022, there were 3,453 authorized foreign exchange banks in total, which included 37 head offices and 3,376 branches of domestic banks, 37 branches of foreign banks, three branches of Mainland Chinese banks, as well as 4,614 authorized money exchangers, post offices, and financial institutions authorized to engage in basic foreign exchange business.
- B. The Bank amended the *Directions Governing Banking Enterprises for Operating Foreign Exchange Business* on January 19, 2022, to loosen counterparty restrictions for authorized banks engaging in digital foreign currency deposit accounts and to increase acceptable documents for authorized banks engaging in foreign currency loan business.
- C. In order to enhance the efforts in anti-money laundering and countering the financing of terrorism, the Bank amended the *Regulations Governing the Establishment and Administration of Foreign Currency Exchange Counters*, including lowering the cap on each foreign currency exchange transaction for each customer from US\$10,000 or its equivalent to US\$3,000 or its equivalent and conducting enhanced due diligence on customers, effective January 28, 2022.

(2) Insurance Companies

As of the end of 2022, 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 decreased by US\$10.25 billion, or 27.0%, from the previous year to US\$27.71 billion in 2022.

(3) Securities Firms and Bills Finance Companies

Approved cases for securities firms and bills finance companies to conduct foreign exchange business in 2022 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 funds nor for hedging needs	1
	Accepting orders to trade foreign securities	1
	Foreign bond trading agency business	1
	Issuance of exchange traded notes tracking 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 (concurrently operating as a leverage transaction merchant) to conduct foreign exchange business as of 2022 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	2
	Conducting public offers or private placement of foreign currency-denominated funds	3
Futures firms (concurrently operating as a leverage transaction merchant)	Contracts for differences linked to gold or oil prices	1
	Contracts for differences linked to foreign stock market indices	1

Source: Department of Foreign Exchange, CBC.

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 2022

Currency	Domestic Participating Units	Settlements in 2022	
		Number of Transactions	Amount
US dollar	71	1,319,175	USD 2,104.7 billion
Renminbi	61	271,706	RMB 583.5 billion
Yen	39	35,534	JPY 1,414.3 billion
Euro	40	19,923	EUR 8.2 billion
Australian dollar	30	26,417	AUD 1.3 billion

Source: Department of Foreign Exchange, CBC.

Offshore Banking

(1) In order to illustrate the conditions under which a securities firm will be considered as severely violating the law, the Bank collaborated with the Financial Supervisory Commission to amend Article 2 of *Regulations Governing the Establishment of and Compliance Matters for Offshore Securities Branches*, which were issued on June 22, 2022.

(2) Financial Status

A. Offshore Banking Units (OBUs)

At the end of 2022, the number of OBUs came to 59, and total OBU assets increased by US\$16.21 billion, or 6.5%, over the previous year to US\$266.13 billion. The net income after tax of all OBUs amounted to US\$2.35 billion, decreasing by US\$0.87 billion, or 27.0%, from a year before.

B. Offshore Securities Units (OSUs)

At the end of 2022, the number of OSUs stood at 19, and total OSU assets reached US\$4.54 billion, the same as the previous year. The net income after tax of the business also decreased by US\$80.0 million, or 150.9%, to negative US\$27.0 million for 2022.

C. Offshore Insurance Units (OIUs)

As of the end of 2022, the number of OIUs was 20, with a total amount of assets of US\$0.99 billion, which was US\$0.01 billion or 1.0% less than the previous year end. The net income after tax of all OIUs increased to US\$29.9 million, an increase of US\$48.2 million from the previous year.