

### 3. Foreign Exchange Management

For the year 2013, the CBC followed the established managed float regime to maintain an orderly foreign exchange (FX) market. Sufficient seed funds were provided by the CBC for the Taipei Foreign Currency Call Loan Market. The CBC's foreign exchange reserves increased by US\$13.6 billion owing to a higher return on investments. The CBC also established a foreign currency clearing platform compatible with international standards. Moreover, the CBC approved the NTD clearing bank in Mainland China and the renminbi (RMB) clearing bank in Taiwan.

#### Foreign Exchange Market Management

Taiwan's exchange rate is in principle guided by the market mechanism; the CBC only steps in when there is excessive exchange rate volatility. At the end of 2013, the NT\$/US\$ exchange rate depreciated by 0.53 percent from the previous year end's 29.614 to 29.77, relatively stable as compared to the euro's 3.33 percent appreciation against the US dollar, the renminbi's 1.85 percent appreciation, the Korean won's 2.81 percent appreciation, the Japanese yen's 22.32 percent depreciation and the Singapore dollar's 0.13 percent depreciation.

In 2013, the CBC continued to implement the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions to keep the market in order. Moreover, examination efforts were reinforced to ensure that forward transactions were based only on actual transactions. The CBC also urged authorized banks to enhance their exchange rate risk management. In addition, the CBC strengthened target examinations related to foreign exchange activities. The CBC also approved 107 new authorized FX banks and 20 new FX derivatives and provided liquidity for the FX call loan and swap markets.

#### Management of the Foreign Currency Call Loan and Swap Business

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 CBC provided seed funds\* for the Taipei Foreign Currency Call Loan Market.

Furthermore, the CBC continued to conduct foreign currency swap transactions with banks and extended foreign currency call loans to banks so as to facilitate smooth corporate financing. During 2013, the volume of foreign exchange call loan transactions reached US\$1,362.7 billion, 24.6 percent less than that of 2012, while the volume of foreign currency-NT dollar swap transactions reached US\$1,131.9 billion, 0.2 percent more than 2012.

\* The seed funds include US\$20 billion, €1 billion and ¥80 billion.

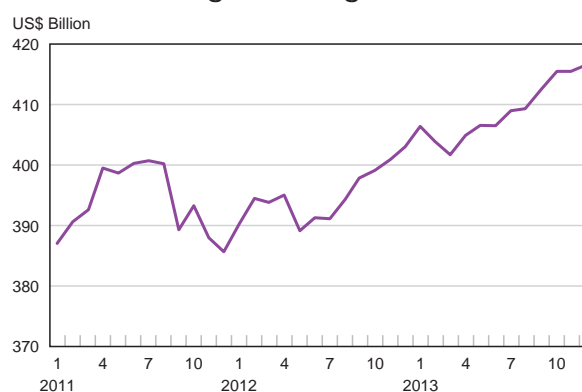
## Foreign Exchange Reserve Management

At the end of 2013, total foreign exchange reserves stood at US\$416.8 billion, a US\$13.6 billion increase from the end of 2012. The increase was mainly attributable to higher returns from foreign exchange reserves investments.

## Capital Flow Management

The CBC's foreign exchange management mainly relies on the market mechanism, and capital can, in principle, flow freely in and out of Taiwan. As of 2013, foreign currency capital not involving NT dollar conversion can flow freely; neither is there any restriction on financial flows involving NT dollar conversion for commodity and service trade, as well as 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 CBC. Each transaction for a non-resident within US\$0.1 million can be settled by banks directly, whereas any amount of transaction above that threshold requires the approval of the CBC.

Foreign Exchange Reserves



Source: Department of Foreign Exchange, CBC.

## Key Measures with Regard to the Management of Capital Flows in 2013

1. In order to promote the internationalization of Taiwan's capital markets, the CBC approved the following in 2013:
  - (1) The issuance of overseas depositary receipts by five domestic corporations with a total issuance amount of US\$1.7 billion, and the issuance of European Convertible Bonds by six domestic corporations with a total of US\$1 billion raised.
  - (2) Initial public offerings on the TWSE and GTSM by 22 foreign corporations, with a total amount of NT\$15.4 billion raised; the issuance of NT dollar Convertible Bonds by seven foreign corporations, which combined to raise a total amount of NT\$5.7 billion; the offering and issuance of RMB-denominated bonds by four foreign banks, raising RMB\$6.7 billion; the offering and issuance of international bonds by one foreign bank for a total amount close to US\$1 billion.
2. The CBC gave consent to an increase in residents' investments in foreign securities, detailed as follows:
  - (1) Domestic securities investment trust companies were allowed to offer 45 public funds and two

private funds domestically, all of which invest in foreign securities, with a total of NT\$555 billion and NT\$4.5 billion raised, respectively.

- (2) One domestic managed futures enterprise was allowed to offer one futures trust fund on the local market, with a total of NT\$5 billion raised.
- (3) Life insurance companies were approved to invest in foreign securities with the amount totaling US\$1.6 billion through non-discretionary money trusts managed by financial institutions. Their own investments in foreign securities amounted to US\$0.9 billion.
- (4) Five major government pension or insurance funds, including labor pension funds, invested a total amount of US\$8.2 billion in foreign securities.

3. The CBC loosened the following regulations regarding foreign exchange remittances:

- (1) *The Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions* was revised and released on July 30, 2013. Starting from August 1, remittances for individual's payments of non-residents' services are excluded from the declarer's yearly accumulated remittances; unless otherwise regulated by the CBC, the regulations apply to the declaration of Taiwan area renminbi disbursements or transactions.
- (2) *The Directions for Banking Enterprises while Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions* was amended, effective August 1, 2013. Pursuant to the amendments, for citizens of Mainland China with Taiwan Resident Certificates, the declaration and amount of their remittances shall be handled on the same basis as those for other people with Taiwan Resident Certificates; moreover, in tandem with relevant regulations of the Ministry of Economic Affairs (MOEA), qualified data processing service providers with proof of certification from the MOEA may conduct foreign exchange declarations for cross-border on-line transactions on behalf of service users.

## **Management of the Foreign Exchange Business of Financial Institutions**

### **1. Authorized banks**

At the end of 2013, there were 3,356 authorized foreign exchange banks in total, which included 39 head offices and 3,278 branches of domestic banks, 36 branches of 28 foreign banks, three branches of Mainland Chinese banks, as well as 992 authorized money exchangers, post offices and financial institutions authorized to engage in basic foreign exchange business. In 2013, the CBC approved 15 cases for authorized banks to establish branches in Mainland China, eight cases for domestic banks to set up branches abroad, and one case for a Mainland Chinese bank to establish its branch in Taiwan. In terms of new FX products, 20 derivatives were approved in 2013 after prudent

review aimed at investor rights protection.

## 2. Insurance companies

In 2013, 18 insurance companies were allowed to engage in foreign currency investment-linked insurance business, and 24 were permitted to conduct business in relation to traditional foreign currency insurance products.

## 3. Securities firms

In 2013, the CBC approved four securities firms to be agents for foreign bond trading, 40 to be entrusted as agents for foreign securities trading, 28 for underwriting international bonds, six for proprietary trading of and investments in international bonds, six for proprietary foreign securities trading neither belonging to investment with their own funds nor for hedging needs, eight to issue warrants linked to foreign securities or indexes, one to issue overseas warrants linked to domestic securities, nine to conduct non-discretionary individually managed money trust wealth management business, 21 to deal onshore foreign currency bills, and five as participating dealers of offshore exchange traded funds.

The CBC also permitted 45 securities firms, investment trust and investment consulting firms to be master agents for offshore public funds, 21 institutions to be mandated to place private offshore funds in Taiwan; the CBC also gave permission to 21 investment trust and investment consulting firms to conduct foreign currency discretionary investments in foreign securities, 19 as mandated institutions to publicly offer or privately place foreign currency-denominated funds in Taiwan, and two to be master agents for offshore exchange traded funds.

## 4. Renminbi exchange transactions

- (1) On January 25, 2013, the Taipei Branch of the Bank of China signed *Clearing Agreement Regarding Renminbi Business* with the People's Bank of China. On January 28, the CBC approved the Taipei Branch of the Bank of China as the renminbi clearing bank in Taiwan.
- (2) Taiwan's authorized FX banks (domestic banking units, DBUs) signed clearing agreements with the Taipei Branch of the Bank of China, and began to offer renminbi business on February 6.
- (3) With the establishment of the cross-strait currency clearing mechanism, the management of renminbi business in the Taiwan area is governed by the *Foreign Exchange Control Act*. Therefore, on August 30, 2013, the CBC and the Financial Supervisory Commission abolished the *Regulations Governing the Administration and Settlement of Renminbi in the Taiwan Area*, and restrictions on renminbi banknotes purchase involved in banks' renminbi currency exchange business were lifted.

- (4) By the end of 2013, there were 65 authorized FX banks and 57 offshore banking units (OBUs) engaged in renminbi business. From February 6, 2013, to the end of 2013, renminbi deposit balance amounted to RMB182.6 billion; renminbi remittances totaled RMB499.5 billion; renminbi settlement through the Taipei Branch of the Bank of China totaled RMB1,545.8 billion.
- (5) In 2013, the renminbi investment products were further diversified. As of the end of 2013, renminbi business conducted by financial institutions were as follows: (A) 43 authorized FX banks and four securities firms offered renminbi derivative financial products and structured products; (B) nine banks and companies issued 13 renminbi bonds, totaling RMB10.6 billion; (C) nine companies raised and issued 14 renminbi funds, totaling RMB3.5 billion.

#### 5. Foreign currency clearing platform

- (1) To further reinforce Taiwan's financial infrastructure, and in line with the establishment of the cross-strait renminbi clearing mechanism, the CBC consigned the Financial Information Service Co. to set up a foreign currency clearing platform in conformity with international standards. The platform went on line on March 1, 2013, to handle domestic US dollar remittances. From September 30 onward, domestic and cross-strait renminbi remittances were included.
- (2) By the end of 2013, the foreign currency clearing platform had achieved the following: (A) 76 domestic banks participated in US dollar settlement with a daily average of 3,244 transactions and an amount of US\$8.9 billion; (B) 44 domestic units participated in renminbi settlement, with a daily average of 318 transactions and an amount of RMB0.57 billion; (C) domestic bank remittance fees were lowered from NT\$600-1,400 to NT\$320-1,020 per transaction.

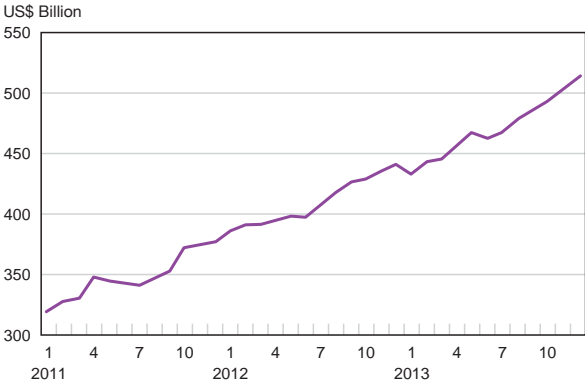
#### 6. Offshore Banking Units

- (1) At the end of 2013, all OBU assets totaled US\$169.6 billion, which was US\$1.33 billion or 0.8 percent less than the previous year end. Domestic banks owned 84 percent of the OBU assets, while foreign banks owned 16 percent.
- (2) OBU cross-strait financial business kept growing.
  - A. At the end of 2013, non-financial institutions' deposits reached US\$51.19 billion, a 16.1 percent increase from a year ago.
  - B. Cross-strait remittances increased 16.3 percent in 2013 from a year ago, amounting to US\$31.7 billion at the end of 2013.
- (3) Offshore Securities Units (OSUs)
  - A. In order to expand the scope of Taiwan's capital market and to promote securities firms'

international competitiveness, the CBC, along with the Financial Supervisory Commission, revised some provisions of the *Offshore Banking Act*, and began to accept securities firms' applications to establish offshore securities business branches. This amendment was approved by the President on June 19, 2013, and went into effect immediately.

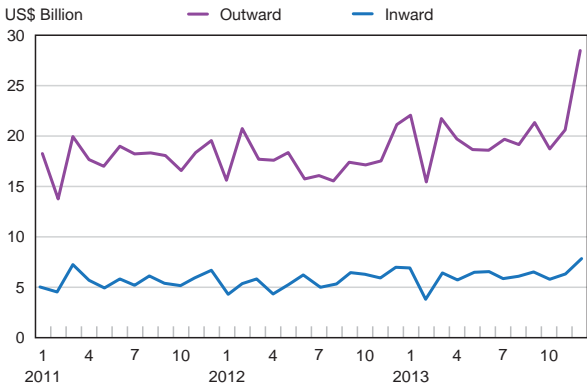
- B. The CBC and the Financial Supervisory Commission together revised the *Enforcement Rules of the Offshore Banking Act* and formulated the *Regulations Governing Offshore Securities Branches*, announced and enacted on December 26, 2013.

OBU’s Non-financial Institution Deposits



Source: Department of Foreign Exchange, CBC.

Cross-Strait Remittances Through OBUs



Source: Department of Foreign Exchange, CBC.