

Annex



IV. Annex

Taiwan Offshore RMB Market — Developments and Prospects

I. Preface

In an effort to further promote bilateral trade and finance, the two respective central banks across the Taiwan Strait signed the *Memorandum on Cross-Strait Currency Clearing Cooperation* (hereinafter the “*Memorandum*”) on August 31, 2012. Based on this foundation, a mechanism was inaugurated for currency clearing and settlement between the NT dollar and renminbi (RMB), marking a new milestone for Taiwan's RMB business.

II. Taiwan's Development into an Offshore RMB Market

1. The stage before the *Memorandum* (between June 2008 and August 2012)

- (1) In response to needs arising alongside flourishing tourism across the Strait, the CBC authorized financial institutions on the island of Taiwan to exchange RMB banknotes in 2008.
- (2) To facilitate the settlements of cross-border trade for Taiwanese companies, the CBC, along with the Financial Supervisory Commission (FSC), gave a green light to the offshore banking units (OBUs) and overseas branches of Taiwanese banks to conduct RMB business on July 21, 2011.

2. The stage after the *Memorandum* (from August 31, 2012, onward)

After several rounds of negotiations, the CBC and the People's Bank of China (PBOC) signed the *Memorandum* on August 31, 2012. Based on the framework thus established, the two central banks would separately designate one currency clearing institution to provide clearing and settlement services as per the laws and regulations of the other side. Meanwhile, the two central banks agreed to coordinate the supervision of the two designated currency clearing institutions, including information sharing, protection of confidentiality, business examination, crisis management, and means of communication.

- (1) A chronology of events that mark the development of the RMB business by the CBC since 2013 is as follows.

Date	Event
Jan. 25, 2013	The CBC amended the <i>Regulations Governing Foreign Exchange Business of Banking Enterprises</i> . The authorized foreign exchange banks (DBUs) may conduct RMB business after opening clearing accounts with the RMB clearing bank in Taiwan.
Jan. 28	The CBC approved the Taipei Branch of the Bank of China as the RMB clearing bank in Taiwan.
Jan. 29	The CBC set the scope of business for derivative RMB products conducted by DBUs.
Jan. 30	The CBC and the Taipei Branch of the Bank of China co-hosted a seminar on the regulations governing RMB business and the clearing of RMB.
Feb. 6	DBUs in Taiwan officially launched RMB business.
April 1	The CBC relaxed the regulations on DBUs conducting RMB trade settlement and clearance with the clearing bank.
April 11	The CBC and the Taipei Branch of the Bank of China co-hosted the second seminar on the regulations governing RMB business and the clearing of RMB.
April 12	The CBC allowed securities firms to conduct RMB derivatives and structured products.
May 8-9	The Taipei Branch of the Bank of China hosted a seminar on cross-border RMB business.
Aug. 30	The CBC repealed the <i>Regulations Governing the Administration and Settlement of Renminbi in the Taiwan Area</i> . DBUs can now procure and sell RMB banknotes freely when engaged in banknote exchange business.
Sep. 3	The CBC allowed DBUs to grant foreign currency (including RMB) loans to Taiwanese firms based on lending contracts with their affiliates or subsidiaries in Kunshan, Mainland China.
Sep.14	The CBC widened the scope of business for derivative RMB products conducted by DBUs.
Sep. 30	The newly-launched foreign currency clearing platform began to process domestic and cross-strait RMB remittances and funds transfers.
Oct. 9	The Taipei Branch of the Bank of China hosted a seminar on financial business to be conducted in Kunshan area.
Jan. 20, 2014	The Taipei Branch of the Bank of China offered RMB banknote services.

(2) The scope of RMB business conducted by financial institutions

A. Along with the continuous deregulation of RMB business, DBUs are allowed to offer a variety of RMB services and products, including RMB deposits, loans, remittance, trade settlement, currency exchange, derivatives, and structured products.

B. After RMB business commenced at DBUs, other types of financial institutions also began to engage in RMB business:

- Securities investment trust enterprises may offer domestic securities investment trust funds denominated in RMB.
- Insurance companies may offer RMB-denominated insurance products.
- Trust enterprises may engage in collective trust fund management and employment accounts

and collective trust funds which invest in financial products in Mainland China and/or RMB-denominated products.

- Securities firms may trade for their own accounts and/or execute orders to trade foreign securities, FX derivatives and structured products which invest in the financial products in Mainland China and/or RMB-denominated products.

The Scope of RMB Business in Taiwan

Business Service Scope	RMB Products
Retail and corporate banking	Deposits, loans, remittance, trade settlement, currency exchange, wealth management products
Capital market	RMB corporate bonds (Formosa bonds), securities investment trust funds
Foreign exchange market	Spots, forwards, swaps, NDFs
Insurance	RMB-denominated insurance products
Other RMB products	Derivatives (currency options, interest rate swaps, cross currency interest rate swaps, etc.), structured products

III. Market Development

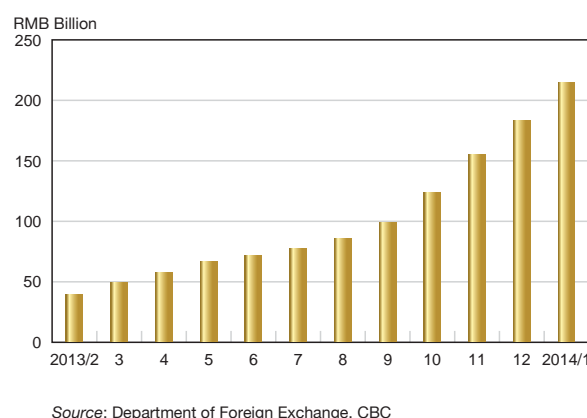
1. DBUs' RMB business grew rapidly

The offshore RMB business in Taiwan has made great strides since its launch.

(1) RMB deposits accumulated rapidly

At the end of January 2014, 66 DBUs and 57 OBUs in Taiwan have been conducting RMB business, with deposits totaling RMB214.5 billion. Taiwan has accumulated quite a substantial RMB liquidity pool so far. Meanwhile, RMB deposits are the second largest among foreign currency deposits in Taiwan, next to the US dollar (USD) and followed by the Japanese yen and the euro.

RMB Deposits in Taiwan



(2) RMB remittances increased gradually

RMB remittances have reached a total of RMB580.5 billion, growing from about RMB17.3

billion in February 2013 to RMB81 billion in January 2014.

- (3) RMB settlements handled by the Taipei Branch of the Bank of China grew steadily

RMB settlements handled by the Taipei Branch of the Bank of China has amounted to nearly RMB1,907 billion, growing from RMB8.0 billion in February 2013 to RMB361.1 billion in January 2014.

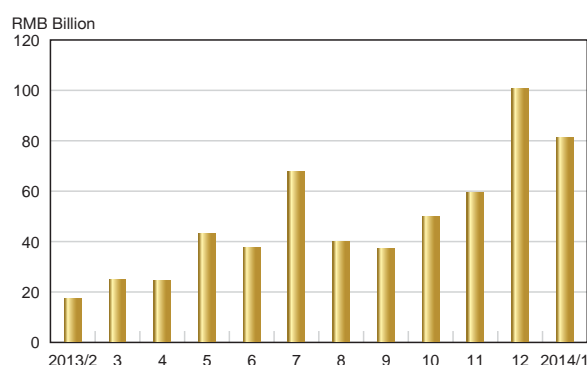
- (4) The newly-launched foreign currency clearing platform added RMB into its services

The success of an offshore RMB market cannot be achieved without an efficient and effective payment and settlement platform. Therefore, under the plan initiated by the CBC, the newly-launched foreign currency clearing platform now also facilitates RMB transactions. Beginning from September 30, 2013, the platform is extended to carry out RMB payment and settlement services involving remittances and funds transfers, both onshore and cross-border, including transactions with Mainland China, Hong Kong, and other foreign markets. Adding RMB to the platform will increase the efficiency of processing RMB flows, push up RMB-related business volume, and promote a wider variety of RMB products and services. As of the end of January 2014, the platform has handled clearing and settlement for 14,389 RMB cross-border remittances with an amount of RMB16.3 billion, and onshore cross-bank clearing for 11,306 transactions with an amount of RMB23.0 billion.

2. Other RMB business developments

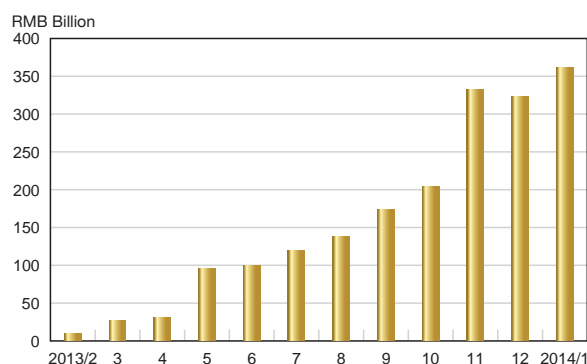
- (1) The first RMB-denominated bond (Formosa bond) in Taiwan was issued on March 12, 2013. As of the end of January 2014, 11 domestic and foreign institutions (including four Hong Kong branches of Mainland Chinese banks) have issued a total of 15 Formosa bonds with a combined amount of RMB12.1 billion.

RMB Remittance



Source: Department of Foreign Exchange, CBC

RMB Settlements Handled by the Taipei Branch of the Bank of China



Source: Department of Foreign Exchange, CBC

- (2) The transaction amount of outright purchases and repo transactions of Formosa bonds conducted by securities firms have reached RMB3.85 billion and RMB2.54 billion, respectively.
- (3) 11 securities investment trust enterprises have been approved to publicly offer 17 trust funds denominated in RMB. 14 RMB-denominated funds have been issued, with an outstanding balance of RMB3.56 billion.
- (4) 15 insurance companies have been approved to sell RMB-denominated insurance products, with the accumulated premiums amounting to RMB0.18 billion.

Summary List of Other RMB Business

Industry Type	RMB Business	Number	Size (in RMB Billions)
Bond issuers	No. of Formosa bonds issuers	11	
	No. of Formosa bonds issued	15	
	Amount of Formosa bonds' issuance		12.10
Securities firms	Transaction amount of outright purchases of Formosa bonds		3.85
	Repo transactions of Formosa bonds		2.54
Securities investment trust enterprises	No. of RMB funds publicly offered	9	
	No. of RMB funds	14	
	Outstanding balance of RMB funds		3.56
Insurers	No. of RMB-denominated insurance products of insurance companies	15	
	Accumulated premiums		0.18

IV. RMB Deposit as a Choice for Asset Allocation

1. In Taiwan, foreign currency depositors have a variety of currencies to choose from, such as the USD, the euro, and the Australian dollar. The main reasons to hold foreign currency deposits are to meet the needs for trade settlement, and to profit from interest rate spreads and exchange rate differences. In recent years, as more international financial products are on the market for Taiwan's investors, the ratio of foreign currency deposits to total deposits has gradually risen, except in the aftermath of the global financial crisis when the ratio growth stagnated. The opening of RMB business brought that ratio to a new high, reaching 12.88 percent at the end of 2013.
2. The RMB has recently been added to the family of foreign currency deposits as one of the choices

for asset allocation. However, its share, compared to either foreign currency or NT dollar (NTD) deposits, is still small. For example, as mentioned above, at the end of December 2013, the ratio of foreign currency deposits to total deposits was 12.88 percent, and the ratio of RMB deposits to total deposits was only 2.51 percent. By contrast, the ratio of NTD deposits to total deposits was 87.12 percent. Therefore, the suspected impact of RMB deposits on NTD deposits is actually limited, and the indirect currency substitution effect is negligible. Meanwhile, there exists some substitution between the deposits of RMB and those of the other foreign currencies, which further reduces the impact of RMB deposits on NTD ones.

3. Hong Kong and Singapore are the most financially liberalized economies in East Asia and act as regional financial centers. Hong Kong is also the biggest offshore RMB hub in size. Nevertheless, their ratios of RMB deposits to total deposits are far from substantial, at 11.93 percent and 3.06 percent for Hong Kong and Singapore, respectively.

V. Notable Measures under Preparation by the CBC

1. Regular review of regulations

The CBC has, on several occasions, relaxed the regulations on RMB business, such as allowing financial institutions to offer RMB derivatives, and permitting banks to square RMB positions with the clearing bank for trade-related conversions. The CBC will keep monitoring the development of Taiwan's RMB business, conduct periodic reviews of relevant regulations and make timely and appropriate adjustments. This is part of the CBC's efforts in strengthening Taiwan's status as an important offshore RMB market.

2. Enhancement of financial infrastructure

The CBC continues working with relevant institutions to make the newly-launched foreign currency clearing platform more functional. The CBC also cooperates with other international clearing platforms, and plans to expand the scope of the platform's clearing and settlement services in the future. If needed, the CBC might consider extending the operating hours of the platform to support transactions in different time-zones, such as Europe.

3. Magnifying Taiwan's unique strengths

Annual bilateral trade between Taiwan and Mainland China totals around US\$120 billion, and bilateral remittances amount to more than US\$560 billion. Many Taiwanese firms invest in Mainland China and run businesses across both sides of the Strait. Banks can tap tremendous RMB business opportunities by providing firms with more and better RMB-related services, such as trade settlements, cash flow management, which would in turn help build a larger pool of RMB liquidity.

4. Expanding RMB transaction volume and maintaining liquidity support

(1) Greater participation

The CBC aims to encourage participation by overseas banks in Taiwan's RMB business. With roadshows to be held abroad by Taiwan's RMB clearing bank, it is hoped that more foreign financial institutions will become participating banks.

(2) Cooperation between domestic and foreign currency brokerages

The CBC also encourages Taiwanese FX brokerage houses to seek business cooperation with their counterparts from other offshore RMB markets, such as Hong Kong, Singapore, and London. This will not only expand the size of the global offshore RMB business but also stimulate business growth of RMB transactions handled in Taiwan and bolster market liquidity.

(3) Exchange rate and interest rate pricing to facilitate the offering of RMB financial products

It is important for Taiwan to establish pricing mechanisms for CNT exchange rate (referring to RMB traded in Taiwan) and CNT TAIBOR (Taipei Interbank Offered Rate) as a benchmark for RMB financial contracts offered in Taiwan. This would help deepen Taiwan's RMB market.

(4) Closer cooperation with other offshore markets

The CBC encourages the financial industry to cooperate closely with other offshore RMB markets, such as Hong Kong, London, and Singapore. The CBC itself will also reach out and strengthen its cooperation with relevant authorities in international financial hubs.

5. Expanding the channels for Taiwan's RMB funds to flow back to Mainland China

(1) The CBC actively engages in negotiations with the PBOC on the relaxation or cancellation of the RMB exchange limit and on signing a currency swap agreement as soon as possible.

(2) The CBC will try to gain support to allow onshore RMB lending by Taiwanese banks directly to Taiwanese firms in more pilot cities including Kunshan, Shanghai, Shenzhen, and Xiamen. After Taiwan's legislature passes the cross-strait service trade agreement, the RMB Qualified Foreign Institutional Investor (RQFII) scheme will also apply to Taiwanese financial institutions wishing to invest in China's equity and bond markets. The CBC will express the necessity of a larger quota for RQFII investment during cross-strait dialogues, so as to get broader channels for RMB to flow back to Mainland China.