

3. Foreign Exchange Management

For the year 2015, 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\$7.1 billion owing to returns mainly on investments. A delivery-versus-payment (DVP) mechanism for foreign currency bonds and bills transactions was added to the foreign currency clearing platform. Moreover, from February 6, 2013, when domestic banking units (DBUs) were allowed to conduct renminbi (RMB) business, up to the end of 2015, the total amount of DBUs' cross-strait RMB remittances was RMB5,016.6 billion, and DBUs recorded a balance of RMB319.4 billion on RMB deposits.

Foreign Exchange Market Management

Taiwan's exchange rate is in principle guided by the market mechanism; the CBC conducts “leaning against the wind” operations when there is excessive exchange rate volatility. Indeed, according to behavioral macroeconomic analysis, “leaning against the wind” policies can effectively eliminate excessive exchange rate fluctuations and enhance FX market efficiency. In recent years, frequent and massive capital movement has replaced trade or economic fundamentals to become the major factor affecting short-term exchange rate variation. This development increases the need for the CBC to maintain foreign exchange market order. Therefore, Taiwan adopts a managed float regime, which allows exchange rate flexibility and FX intervention and helps diminish or prevent speculative attacks.

At the end of 2015, the NT dollar depreciated by 4.08% against the US dollar compared with the end of the previous year, showing that the NTD exchange rate was relatively stable as compared to the euro's 13.37% depreciation, the RMB's 5.36% depreciation, the Korean won's 6.31% depreciation and the Japanese yen's 2.19% depreciation.

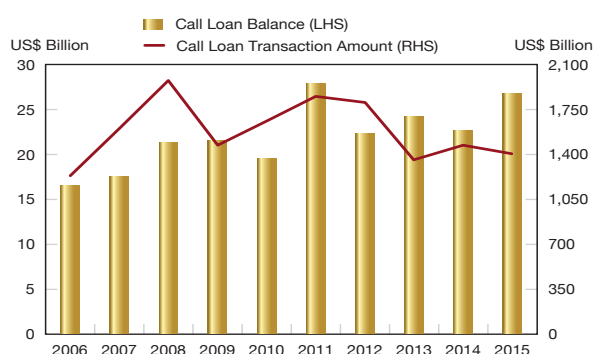
In 2015, the CBC continued to implement the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions to keep the market orderly. Moreover, reinforced examination efforts were made to ensure that forward transactions were based only on actual transactions. The CBC also urged authorized banks to enhance their exchange rate risk management.

Management of the Foreign Currency Call Loan and Swap Market

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, including US\$20 billion, €1 billion and ¥80 billion.

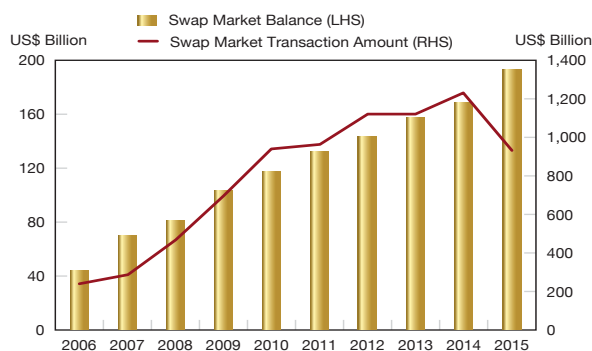
Furthermore, the CBC continued to conduct foreign currency swap transactions with banks and offered foreign currency call loans to banks so as to facilitate smooth corporate financing. During 2015, the volume of foreign exchange call loan transactions reached US\$1,407.1 billion, 4.6% less than that of 2014, while the balance at the end of 2015 was US\$26.8 billion. The volume of foreign currency-NTD swap transactions reached US\$942.8 billion, 24% less than 2014, while the balance was US\$195.2 billion at the end of 2015.

Call Loan Market Transaction Amount and Balance



Source: Department of Foreign Exchange, CBC.

Swap Market Transaction Amount and Balance



Source: Department of Foreign Exchange, CBC.

Foreign Exchange Reserve Management

At the end of 2015, total foreign exchange reserves stood at US\$426.0 billion, a US\$7.1 billion increase (1.7%) from the end of 2014, mainly attributable to higher returns from foreign exchange reserve 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 2015, foreign currency capital not involving NT dollar conversion can flow freely; neither is there any restriction on financial flows involving NT dollar conversion for goods 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

Foreign Exchange Reserves



Source: Department of Foreign Exchange, CBC.

transaction amount above that threshold requires the approval of the CBC.

Key measures with regard to the management of capital flows in 2015 included:

(1) Promoting the internationalization of Taiwan's capital market

CBC-Approved Fund-Raising by Domestic and Foreign Institutions

Institution	Method	Number	Amount
Foreign companies	IPO on TWSE & TPEX and registration on the Emerging Stock Board	21	NTD 12.12 billion
	NTD convertible bonds	9	NTD 5.55 billion
	International bonds	53	USD 27.04 billion RMB27.66 billion USD 2.11 billion
Domestic companies	Overseas convertible bonds	8	USD 2.41 billion
	Overseas depositary receipts	1	USD 0.09 billion
Mainland Chinese banks	RMB-denominated bonds	1	RMB 3.0 billion

Note: TWSE (Taiwan Stock Exchange) ; TPEX (Taipei Exchange) .
Source: Department of Foreign Exchange, CBC.

(2) Approving residents' investments in foreign securities

Residents' investments in Foreign Securities Approved by the CBC

Institution	Method/Instrument	Amount
Securities investment trust enterprises (SITEs)	100 domestic SITE funds (including 37 NTD-foreign multiple currency SITE funds)	NTD 1,602.5 billion (multiple currency funds: NTD 766 billion)
	1 SITE private fund	NTD 3.0 billion
	1 domestic futures trust fund	NTD 2.0 billion
	1 domestic futures trust fund for qualified person	NTD 5.0 billion
Life insurance companies	Non-discretionary money trusts managed by financial institutions	USD 0.11 billion
	Investment for their own accounts	USD 0.75 billion
	Lowering overseas investment hedge positions	USD 1.6 billion
Five major government funds	Investment for their own accounts	USD 4.93 billion
Chunghwa Post	Hedge own investment interest Presell forward FX	USD 0.1 billion

Source: Department of Foreign Exchange, CBC.

(3) Recommending FSC announce adjustments to foreigners' investment limit measures

To stimulate the stock market, and taking into the consideration the fact that corporate bonds, financial debentures and government bonds are all fixed income securities, the CBC recommended the Financial Supervisory Commission (FSC) to include foreign investors' holdings of corporate bonds and financial debentures, along with government bonds and money market instruments, into the category of which the total amount can not exceed 30% of the inflow funds, in order to maintain the consistency of foreigners' investment limit management. The above adjustment went into effect starting from April 22, 2015.

(4) Loosening the regulations regarding foreign exchange remittances

A. To facilitate declarations of FX settlements for electronic payments, the CBC revised the *Directions for Banking Enterprises while Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions*. Starting from May 3, 2015, electronic payment institutions which receive the FSC's approval of cross-border business items, and companies approved by the FSC to cooperate with or assist foreign institutions to engage in related businesses, may act as agents for FX settlement declaration.

B. To promote the development of Taiwan as a key offshore renminbi market and to aid the internationalization and product diversification of the futures market, starting from July 20, 2015, banks are allowed to conduct FX settlement declarations for the Taiwan Futures Exchange (TFE) or futures firms to conduct renminbi/USD exchange rate futures listed on TFE.

C. To assist investment trust and investment consulting firms to explore more business opportunities in foreign currency related services, starting from October 20, 2015, these investment firms' declarations of FX settlements of foreign currency-denominated (excluding renminbi) mutual funds collected and paid with NTDs on behalf of fund purchasers do not count as part of the accumulated yearly FX settlement amount.

Management of the Foreign Exchange Business of Financial Institutions

(1) Authorized FX banks

Pursuant to *the Central Bank of the Republic of China (Taiwan) Act* and the *Foreign Exchange Regulation Act*, the CBC reviews and authorizes banks to conduct FX business and be supervised accordingly. In 2015, the CBC continued to approve bank branches as authorized FX banks and loosened restrictions on FX derivative product business in order to promote authorized FX banks' competitiveness and quality of services.

A. At the end of 2015, there were 3,415 authorized FX banks in total, which included 39 head offices and 3,375 branches of domestic banks, 37 branches of 27 foreign banks, three branches

- of Mainland Chinese banks, as well as 1,268 authorized money exchangers, post offices, and financial institutions authorized to engage in basic foreign exchange business
- B. The CBC also approved 10 cases for authorized FX banks to establish branches in Mainland China, and 10 cases for domestic banks to set up branches abroad.
- C. In terms of new FX products, 35 derivatives were approved in 2015 after prudent review.
- D. The CBC actively assisted banks to take advantage of business opportunities in the digital age, and promoted related businesses:
- (a) On March 4, the CBC simplified procedures for authorized FX banks to apply for electronic FX business.
 - (b) On September 14, the CBC announced that customers of authorized FX banks may conduct FX related business through their own deposit accounts via internet banking, in addition to traditional branch services.
 - (c) On September 16, the CBC announced that authorized FX banks may accept instructions by fax to conduct FX settlement in the amount of NT\$0.5 million and above.
- E. The CBC simplified procedures for banks to apply for FX business through two amendments to the *Directions Governing Banking Enterprises for Operating Foreign Exchange Business*:
- (a) On January 8, the CBC announced in Foreign Exchange Circulars the following measures regarding FX related business conducted by authorized FX banks: allowing FX certificates of deposits to be pledged for foreign currency funds; streamlining procedures for the sale/purchase of foreign currencies at the country's international airports and ad hoc money exchanges; revising rules to allow Mainland Chinese citizens, to enter into non-discretionary money trust contracts investing in foreign currency securities, the same as foreigners.
 - (b) On July 31, the CBC relaxed the qualification criteria for trustors for foreign currency non-discretionary money trusts; and if the trustor is also the beneficiary, the trustors may use their beneficiary right as collateral to pledge for foreign currency loans.
- F. On May 22, the CBC revised the *Regulations Governing Foreign Exchange Business of Banking Enterprises*, the main points of the amendments included:
- (a) The Agricultural Bank of Taiwan is allowed to apply for approval to be designated as an authorized FX bank.
 - (b) Authorized FX banks may issue foreign currency certificates of deposit.
 - (c) Authorized FX banks with trust business are allowed to establish currency-denominated collective investment trust accounts.
 - (d) The scope of FX derivatives was expanded, and procedures for authorized FX banks to apply for FX business was streamlined.

G. On July 31, the CBC promulgated the *Directions for Issuance of Foreign-Currency Denominated Negotiable Certificates of Deposit by Banks*. Accordingly, authorized FX banks would be allowed to issue foreign currency negotiable certificates of deposit, and to offer foreign currency pledged credit or foreign currency loans collateralized with foreign currency negotiable certificates of deposit.

H. On November 27, authorized FX banks with trust business and money trust business may, in consideration of their role as trustee banks for the business of electronic payment institutions, conduct foreign currency individually managed non-discretionary money trust business without prior approval by the CBC.

(2) Insurance companies

A. Up to the end of 2015, 21 insurance companies were allowed to engage in foreign currency investment-linked insurance business, and 23 were permitted to conduct business in relation to traditional foreign currency insurance products.

B. Effective April 8, the restriction on insurance firms that a foreign currency loan pledged against a foreign currency-denominated policy should not exceed 20% of the amount of policy value reserve was removed.

C. On April 29, the *Regulations Governing Foreign Exchange Business of Insurance Enterprises* was revised, and, accordingly, insurance firms would be allowed to conduct foreign currency-denominated property insurance and reinsurance business and to extend foreign currency loans pledged against foreign currency-denominated policy.

D. Effective August 24, insurance firms may participate in foreign currency syndicated lending.

(3) Securities firms, securities investment trust and consulting firms, and bills finance firms

A. On August 17, in order to help domestic investment trust firms to grow their foreign mutual funds business, the CBC extended the scope of foreign currency discretionary investment business conducted by securities investment trust enterprises (SITEs) and securities investment consulting enterprises (SICEs), allowing these enterprises to invest, within 30% of the net asset value of the funds, in foreign currency classes of NTD-included multi-currency funds.

B. The approved cases granted by the CBC for securities firms, investment trust and investment consulting firms to manage FX business as of the end of 2015, are shown in the following table.

CBC-Approved FX Business Managed by Securities Firms and Investment Trust and Investment Consulting Firms

(As of End-2015)

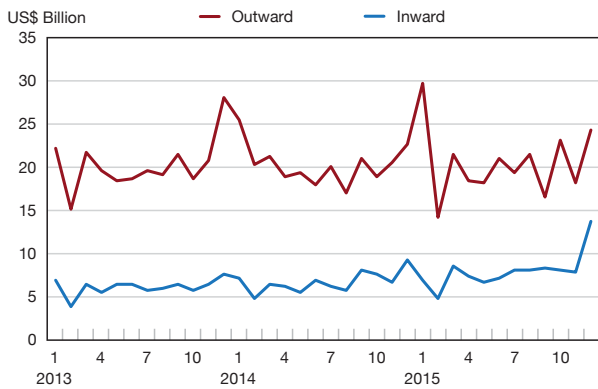
Institution	FX business	Number
Securities firms	Agents for foreign bond trading	14
	Brokering trades in foreign securities	40
	Underwriting international bonds	38
	Proprietary foreign securities trading neither belonging to investment with their own funds nor for hedging needs	15
	Issuance of warrants linked to foreign securities or indexes ⁷	7
	Issuance of warrants linked to domestic securities	1
	Non-discretionary individually managed money trust wealth management	11
	FX spot transactions among foreign currencies	2
	Participating dealers of offshore exchange traded funds	4
Securities firms; investment trust and investment consulting firms	Master agents for offshore public funds	49
	Mandated institution of private offshore funds	25
investment trust and investment consulting firms	Foreign currency discretionary investments in foreign securities	29
	Conducting public offer or private placement of foreign currency-denominated funds	18
	Master agents for offshore exchange traded funds	2
Bills finance firms	Foreign currency bond dealing and investment	8
	Foreign currency bills certification, underwriting, brokerage and dealing	26

Source: Department of Foreign Exchange, CBC.

(4) Offshore Banking Units (OBUs)

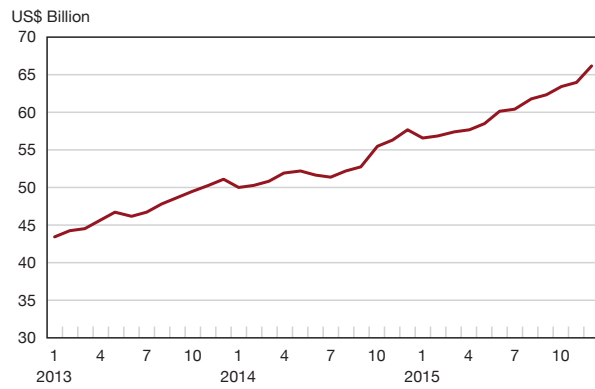
- A. At the end of 2015, all OBU assets totaled US\$181.9 billion, which was US\$2.1 billion or 1.1% less than the previous year end. Domestic banks owned 86.4% of the OBU assets, while foreign banks owned 13.6%.
- B. In 2015, the total FX trading amount was US\$1,067.3 billion, a large 77.3% increase from 2014.
- C. OBU cross-strait financial business kept growing.

Cross-Strait Remittances Through OBU's



Source: Department of Foreign Exchange, CBC.

OBU's Non-financial Institution Deposits



Source: Department of Foreign Exchange, CBC.

(a) Cross-strait remittances increased by 5.6% from a monthly average of US\$27.02 billion in 2014 to US\$28.53 billion in 2015.

(b) At the end of 2015, non-financial institutions' deposits reached US\$66.14 billion, a 14.4% increase from a year ago.

(5) Offshore Securities Units (OSUs)

At the end of 2015, 17 OSUs were approved and established, total OSU assets reached US\$1.77 billion; total OSU net losses in 2015 were US\$0.6million.

(6) Offshore Insurance Units (OIUs)

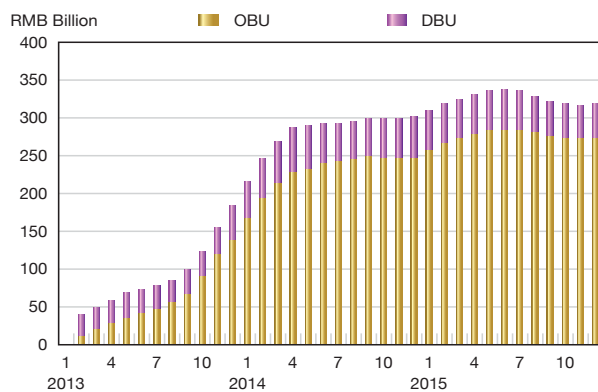
On February 4, 2015, the CBC announced the amendments to the *Offshore Banking Act*, whereby insurance firms would be allowed to establish OIUs. Up to the end of 2015, 18 insurance firms were approved to establish OIUs, and seven of the approved cases were set up.

RMB Exchange Business Kept Growing

(1) Since February 6, 2013, when authorized FX banks or DBUs began to conduct RMB business, domestic RMB business has been flourishing.

(2) By the end of 2015, there were 69 DBUs and 59 OBUs engaging in RMB business. The balance of RMB deposits amounted to RMB319.4 billion, 5.7% higher than the end of 2014; RMB remittances totaled RMB3,045.8 billion in 2015, 107% higher than 2014; and RMB settlement

RMB Deposit Balances of All Banks



Note: Bank renminbi deposits started from February 2013.
Source: Department of Foreign Exchange, CBC.

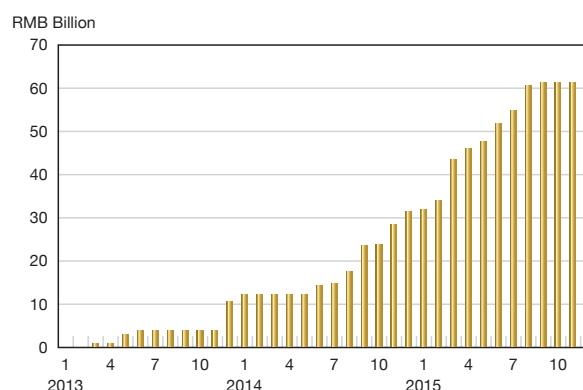
through the Taipei Branch of the Bank of China totaled RMB5,135.7 billion, 29.8% higher than 2014.

- (3) Along with the development of RMB business, RMB investment instruments were further diversified. As of the end of 2015, RMB investment business conducted by financial institutions is included in the following table.

Expanding Foreign Currency Clearing Platform

- (1) The CBC began efforts to establish a domestic USD clearing mechanism in September 2008 and officially launched the system on December 6, 2010. Afterwards, the CBC consigned the Financial Information Service Co. to set up a foreign currency clearing platform, which started operating in March 2013. The platform also began services for domestic and cross-border US dollar and RMB remittances, and adopted a payment-versus-payment (PVP) mechanism among banks and a liquidity-saving mechanism for foreign currency remittances. In 2015, the CBC made available on the platform domestic and cross-border yen and euro remittances, as well as a delivery-versus-payment (DVP) mechanism for foreign currency bonds and bills.

Accumulated Amount of RMB-denominated Bonds Issued



Note: Bank renminbi deposits started from February 2013.
Source: Department of Foreign Exchange, CBC.

RMB Business Conducted by Financial Institutions

Unit: RMB Billion

Institution and business	Amount
Deposit balance (include NCDs, end of 2015)	319.4 (DBU: 272.4; OBU: 47)
Total remittances (February 2013 till December 2015)	5,016.6
Total settlement through the Taipei Branch of the Bank of China (February 2013 to December 2015)	10,638.1
Total value of 97 RMB-denominated bonds issued (up to the end of 2015)	62.6
Issuance of 118 RMB-denominated funds or RMB share classes (up to the end of 2015)	8.3
Accumulated premium receipts from RMB-denominated investment-linked insurance business (up to the end of 2015)	1.2
Accumulated premium receipts from RMB-denominated traditional insurance business (up to the end of 2015)	0.8

Source: Department of Foreign Exchange, CBC.

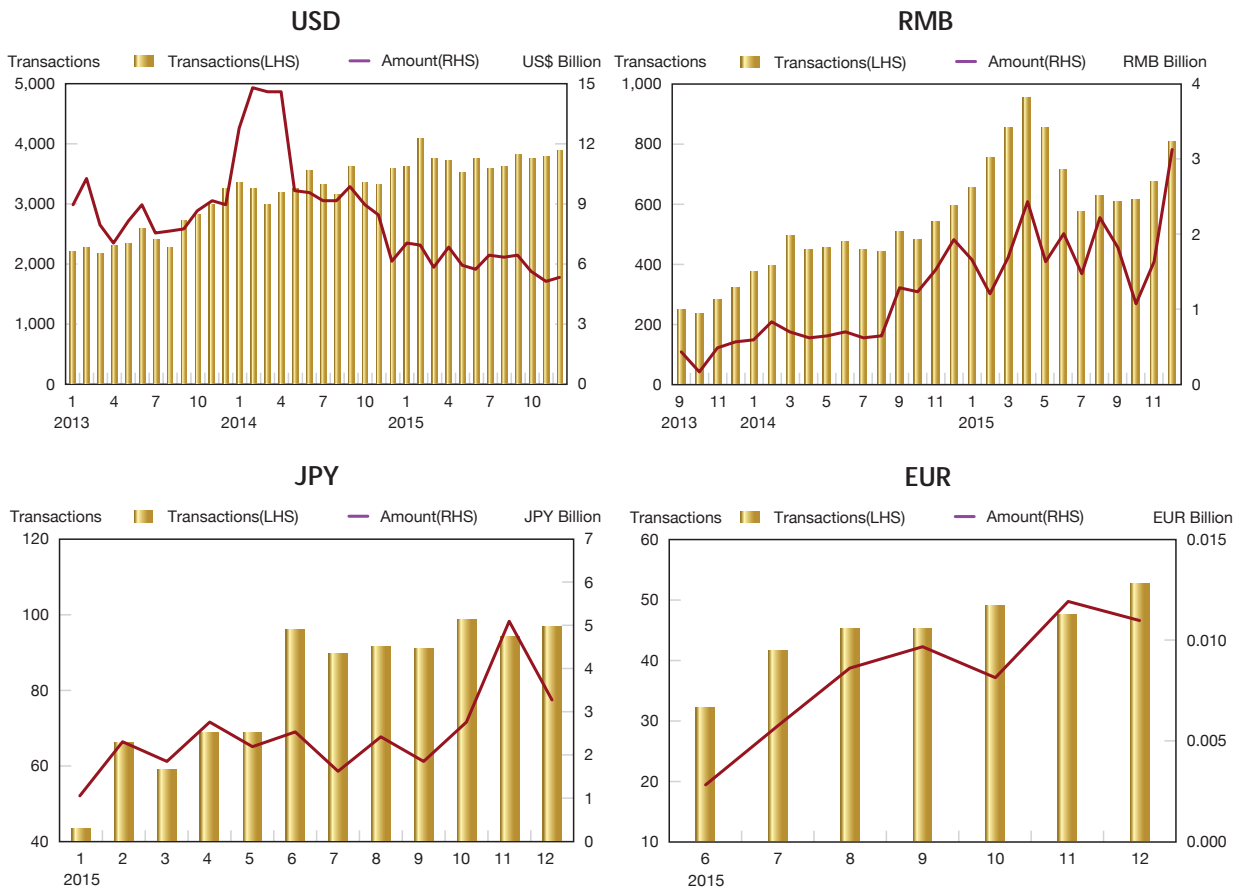
(2) By the end of 2015, the scope of services provided by the platform was complete and comprehensive. It helps to promote the efficiency of foreign currency remittances, significantly reduces the remittance fees, improves the safety and efficiency of payment systems, and boosts financial service development.

A. Domestic foreign currency settlement business grew quickly.

Currency	Domestic participating units	Settlements in 2015	
		Transactions	Amount
US dollar	69	917,543	USD 1,496.6 billion
Renminbi	60	178,477	CNY 457.4 billion
Yen	40	19,383	JPY 697.4 billion
EUR	38	6,057	EUR 1.2 billion

Source: Department of Foreign Exchange, CBC.

Daily Average Transactions and Amount of Domestic Foreign Currency Settlements



Source: Department of Foreign Exchange, CBC.

B. The fees for domestic foreign currency remittances were decreased. Some domestic banks' fees lowered from NT\$600-1,400 per transaction to NT\$320-1,020 per transaction.