

3. Foreign Exchange Management

Taiwan adopts a managed float exchange rate regime and the NT dollar exchange rate is in principle determined by market forces. In the event of excessive exchange rate volatility, the CBC would conduct "leaning against the wind" operations to stave off adverse implications for economic and financial stability. In 2017, the CBC continued employing a flexible exchange rate policy and maintaining the dynamic stability of the NT dollar exchange rate. The CBC is also committed to facilitating the order and development of the foreign exchange (FX) market.

In 2017, the CBC continued to implement the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions to maintain an orderly market. 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 in order to reduce FX market exposure of individual banks and to contain systemic risk. The CBC continued to strengthen the inspection of foreign exchange business projects in order to maintain the order of the FX market.

Foreign Currency Call Loan and Swap Market Management

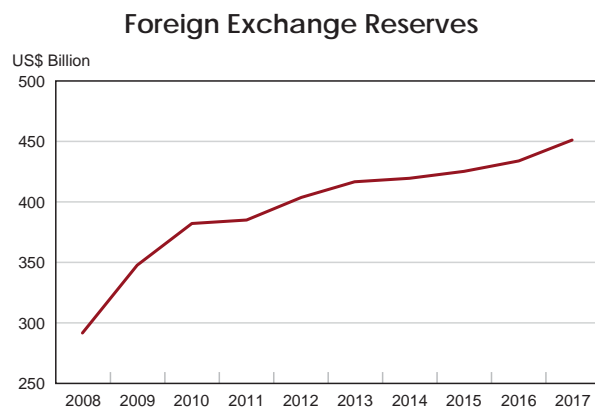
In order to provide the financial system with sufficient foreign currency liquidity to meet funding needs, including those for corporations to venture into overseas markets, the CBC provided seed funds for the Taipei Foreign Currency Call Loan Market, including US\$20 billion, €1 billion and ¥80 billion.

Furthermore, to facilitate smooth corporate financing and providing sufficient foreign currency liquidity within the banking system, the CBC continued to conduct foreign currency swap transactions with banks and offered foreign currency call loans to banks.

Foreign Exchange Reserve Management

The CBC manages its foreign exchange reserves based on the considerations of liquidity, safety, and profitability as well as fostering economic development. The CBC keeps watch on the global economic and financial situation and the financial conditions of the counterparties and adjusts the FX reserves as warranted.

At the end of 2017, total FX reserves stood at US\$451.5 billion, a US\$17.3 billion or 4.0% increase



Source: Department of Foreign Exchange, CBC.

from the end of 2016, mainly attributable to returns from FX reserve investments and an increase in the conversion value of non-US dollar assets, as they appreciated against the US dollar in 2017.

Capital Flow Management

The CBC's FX management mainly relies on the market mechanism and capital can, in principle, flow freely in and out of Taiwan. As of 2017, foreign currency capital not involving NT dollar conversion has 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. 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 transaction amount above that threshold requires the approval of the CBC.

Key measures with regard to the management of capital flows in 2017 included:

(1) Amending corresponding FX regulations

In line with the declaration procedures for electronic foreign exchange settlement and to maintain the powers of the declarants, the CBC amended the *Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursement or Transactions* and its attachment the *Declaration Statement of Foreign Exchange Receipts and Disbursements or Transactions*, and *Directions for Banking Enterprises While Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions*. The above amendments came into effect on March 29.

In order to provide clear guidance for and promote the effectiveness of securities firms' FX business operations, as domestic securities firms would be allowed to carry out spot FX transactions involving NT dollars, the CBC promulgated the *Directions for Domestic Securities Firms Approved to Conduct Foreign Business While Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions*, effective March 29.

In view of the FSC's revision of the *Money Laundering Control Act*, the CBC urged securities companies to comply with the regulations on anti-money laundering and combating the financing of terrorism. The CBC also amended the *Regulations Governing Foreign Exchange Business of Securities Enterprises*, which went into effect on December 30.

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

In 2017, the CBC approved the fund-raising by domestic and foreign institutions through bond issuance, as shown in the following table:

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	22	NTD 17.9 billion
	NTD convertible bonds	8	NTD 7.7 billion
	International bonds	64	USD 37.8 billion RMB 1.6 billion ZAR 2.2 billion NZD 0.008 billion
Domestic companies	Overseas convertible bonds	3	USD 0.6 billion

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

In addition, on March 13, the CBC relaxed the restriction on investment by overseas Chinese and foreign investors, allowing them to invest in the private placement of convertible corporate bonds, exempt from the 30% cap on their investment in government bonds, corporate bonds, financial bonds, money market instruments, and money market funds.

(3) Approving residents' investments in foreign securities

In 2017, the CBC approved the following investments in foreign securities by residents:

Residents' investments in Foreign Securities Approved by the CBC

Institution	Method/Instrument	Amount
Securities investment trust enterprises (SITEs)	79 domestic SITE funds (including 50 NTD-foreign multiple currency SITE funds)	NTD 1,798.1 billion (including multiple currency funds: NTD 1,090 billion)
	2 SITE private funds	NTD 8.0 billion
	7 domestic futures trust funds for qualified persons	NTD 140.0 billion
Life insurance companies	Non-discretionary money trusts managed by financial institutions	USD 0.7 billion
	Investment for their own accounts	USD 3.2 billion
	Lowering overseas investment hedge positions	USD 1.0 billion
Five major government pension funds and employment insurance fund	Investment for their own accounts	USD 4.8 billion

Source: Department of Foreign Exchange, CBC.

Management of the FX 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, authorizes and supervises banks to conduct FX business accordingly. In 2017, the CBC continued to approve bank branches as authorized FX banks and loosened restrictions on FX derivative product business in order to facilitate authorized FX banks' competitiveness and services quality. Related developments in 2017 are as follows:

At the end of 2017, there were 3,445 authorized FX banks in total, which included 39 head offices and 3,368 branches of domestic banks, 35 branches of 26 foreign banks, three branches of Mainland Chinese banks, as well as 4,691 authorized money exchangers, post offices, and financial institutions authorized to engage in basic FX business.

In 2017, the CBC continued to simplify and upgrade the process of banks' FX business via electronic and communications equipment. On September 14, the CBC announced the plan to revise the *Regulations Governing Foreign Exchange Business of Banking Enterprises*, which will allow banks to open digital FX deposit accounts online for clients. The CBC also planned to amend the *Directions Governing Banking Enterprises for Operating Foreign Exchange Business* and the *Directions Governing Authorized Banks for Operating Foreign Exchange Business Through Electronic and Communications Equipment*.

(2) Insurance companies

Up to the end of 2017, 21 insurance companies were allowed to engage in foreign currency insurance business including both traditional and investment-linked foreign currency insurance products. The 2017 foreign currency premium revenue was US\$31.8 billion, an increase of US\$8.9 billion or 38.7% over the previous year.

(3) Securities firms, securities investment trust and consulting firms, and futures firms

In order for a timely review and improvement of FX business of the securities industry, the *Regulations Governing Foreign Exchange Business of Securities Enterprises* was revised twice within 2017:

On March 27, the CBC gave the greenlight for securities firms to carry out NT dollar FX spot business, expanded the permitted scope of FX derivative business, and simplified the application procedures for several types of FX business.

On December 28, the CBC further allowed securities firms that accept orders to trade foreign securities with receipt payment settled in foreign currency, to keep customers' settlement funds in

the customers' separate accounts ledger. The CBC also allowed securities firms to, with the CBC's approval, obtain the settlement funds upon maturity in NT dollars when conducting repo trades of foreign currency securities.

The approved cases granted by the CBC for securities firms, investment trust and investment consulting firms and futures firms to manage FX business as of 2017 are shown in the following table.

Approved cases for securities firms, bills finance firms and futures firms to manage FX business in 2017

Institution	FX Business	Number
Securities firms	Agents for foreign bond trading	1
	Underwriting international bonds	1
	Domestic agent for private placement of foreign currency- denominated funds	1
	Brokerage trading of onshore and offshore securities	1
	Proprietary foreign securities trading neither belonging to investment with their own funds nor for hedging needs	4
	Non-discretionary individually managed money trust wealth management	1
	Foreign currency discretionary investments in foreign securities	1
	Domestic foreign currency ETF liquidity providers	1
Bills finance firms	Foreign currency bills certification, underwriting, brokerage and dealing	1
investment trust and investment consulting firms	Mandated institution of private offshore funds	1
	Foreign currency discretionary investments in foreign securities	4
	Conducting public offer or private placement of foreign currency- denominated funds	2
Futures firms concurrently operating as leverage transaction merchants	Foreign currency margin trading	1

Source: Department of Foreign Exchange, CBC.

(4) Offshore Banking Units (OBUs)

At the end of 2017, the number of OBUs was 61, and total OBU assets reached US\$202.95 billion, which was US\$16.92 billion or 9.1% more than the end of the previous year. The sum of OBU post-tax net profit was US\$2.7billion, an increase of US\$0.4 billion or 17.3% from a year ago.

(5) Offshore Securities Units (OSUs)

At the end of 2017, 18 OSUs were approved and established, and total OSU assets reached US\$5.11 billion, which was US\$1.52 billion or 42.6% more than the previous year end. The total OSU pretax net profits in 2017 were US\$9.29 million, an increase of US\$41.1 million or 79.5% from 2016.

(6) Offshore Insurance Units (OIUs)

Up to the end of 2017, 20 insurance firms were approved to establish OIUs. Total OIU assets reached US\$0.47 billion, which was US\$0.26 billion or 125.7% more than the previous year end. Total OSU profits turned into a net post-tax loss of US\$14.3 million in 2017, a decrease of US\$15.9 million from the net profits of US\$1.6 million of 2016.

RMB Exchange Business

Since February 6, 2013, when authorized FX banks or DBUs began to conduct RMB business, domestic RMB business has been flourishing. By the end of 2017, there were 67 DBUs and 59 OBUs engaging in RMB business. The balance of RMB deposits amounted to RMB322.3 billion; RMB remittances totaled RMB1,332.9 billion in 2017; and RMB settlement through the Taipei Branch of the CBC of China totaled RMB4,033.1 billion.

RMB investment tools have become even more diversified. RMB investment business conducted by financial institutions as of the end of 2017 is shown in the following table.

RMB Business Conducted by Financial Institutions

Unit: RMB Billion

Business Items	Amount
Deposit balance (include NCDs, end of 2017)	322.3
Total remittances (February 2013 to December 2017)	8,222.0
Total settlement through the Taipei Branch of the CBC of China (February 2013 to December 2017)	18,707.6
Total value of 109 RMB-denominated bonds issued (up to the end of 2017)	72.4
Accumulated premium receipts from RMB-denominated investment-linked insurance business (up to the end of 2017)	3.4
Accumulated premium receipts from RMB-denominated traditional insurance business (up to the end of 2017)	2.7

Source: Department of Foreign Exchange, CBC.

Foreign Currency Clearing Platform

The CBC has consigned the Financial Information Service Co. to set up a foreign currency clearing platform, which was inaugurated in 2013. The platform offers services for domestic and

cross-border remittances (including cross-strait) of the US dollar, the renminbi, the Japanese yen and the euro, and domestic remittances of 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.

The Development of Domestic Foreign Currency Settlement Business

Currency	Domestic Participating Units	Settlements in 2017	
		Transactions	Amount
US dollar	70	1,171,805	USD 1,867.8 billion
Renminbi	61	232,081	RMB 363.0 billion
Yen	42	30,635	JPY 1,108.7 billion
Euro	41	19,995	EUR 4.8 billion
Australian dollar	29	14,235	AUD 1.4 million

Source: Department of Foreign Exchange, CBC.