

3. Foreign Exchange Management

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

Promoting the Sound Development of the Foreign Exchange Market

In early 2018, global trade growth gathered momentum, and the stock markets of major Asian emerging economies, including Taiwan, were favored by international investors. However, in the second quarter, as the escalation of US-China trade friction and financial turmoil in some emerging markets drove up pressures to sell in the Taiwan stock market, the NT dollar exchange rate against the US dollar significantly fluctuated. Therefore, in line with its legal mandate, the Bank stepped in as necessary to maintain the dynamic stability of the NT dollar exchange rate.

In the third quarter of 2018, global financial markets generally stabilized, though this was followed by a broad correction in the fourth quarter. Nevertheless, the NT dollar exchange rate against the US dollar was relatively stable. For the year as a whole, the Bank's total purchase and sale in the foreign exchange market roughly balanced each other out.

In 2018, the Bank 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 Bank 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 Bank continued to strengthen targeted examinations on foreign exchange business in order to maintain the order of the FX market.

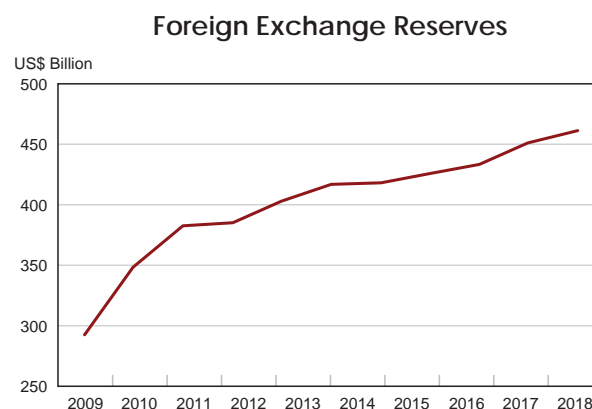
Foreign Currency Call Loan and Swap Market Management

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 Bank 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 provide sufficient foreign currency liquidity within the banking system, the Bank continued to conduct foreign currency swap transactions with banks and offered foreign currency call loans to banks.

Foreign Exchange Reserve Management

The Bank manages its foreign exchange reserves based on the considerations of liquidity, safety, and profitability. The Bank keeps watch on the global economic and financial situation and adjusts the FX reserves as warranted.



Source: Department of Foreign Exchange, CBC.

Currently, US dollar assets 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 the US dollar strengthened and US interest rates rose during 2018, Taiwan's total FX reserves stood at US\$461.8 billion at the end of the year, a US\$10.3 billion or 2.3% increase from the end of 2017, mainly attributable to returns from FX reserve investments after valuation effects.

Capital Flow Management

The Bank's FX management mainly relies on the market mechanism and capital can, in principle, flow freely in and out of Taiwan. As of 2018, 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 Bank. Each transaction for a nonresident within US\$0.1 million can be settled by banks directly, whereas any transaction amount above that threshold requires the approval of the Bank.

Key measures with regard to the management of capital flows in 2018 included:

(1) Amending Corresponding FX Regulations

In line with the amendment to the *Company Act*, which abolished the foreign company approval system, the Bank amended the *Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions* (hereinafter referred to as the *Regulations*), effective November 15.

Banking enterprises are now allowed to process settlements of foreign exchange sold by a representative office or a business office that does not have operating revenue in Taiwan to cover its office expenses, as defined in Article 3 of the *Regulations*.

In line with the relevant amendment of the *Regulations*, the Bank amended some contents in the *Directions for Banking Enterprises while Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions*, and Table 1 of Direction 24 and Table 10 of Direction 26, effective November 15.

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

In 2018, the Bank approved 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	NTD convertible bonds	15	NTD 7.7 billion
	IPO on TWSE & TPEX and registration on the Emerging Stock Board	19	NTD 8.5 billion
	International bonds	49	USD 27.8 billion
		13	RMB 20.3 billion
		3	ZAR 0.9 billion
Domestic companies	Overseas convertible bonds	2	USD 0.6 billion

Note: Taiwan Stock Exchange; Taipei Exchange.
Source: Department of Foreign Exchange, CBC.

In addition, on November 30, the Financial Supervisory Commission (FSC) gave the green light to the issuance of NTD-denominated foreign straight bonds domestically by foreign issuers, offered only to professional institutional investors. In the meantime, the Taipei Exchange promulgated the rules governing management of NTD-denominated international bonds.

(3) Approving Residents' Investments in Foreign Securities

In 2018, the Bank approved the following investments in foreign securities by residents:

Residents' investments in Foreign Securities Approved by the Bank

Institution	Method/Instrument	Amount
Securities investment trust enterprises (SITEs)	100 domestic SITE funds (including 52 NTD-foreign multiple currency SITE funds)	NTD 2,189.5 billion (including multiple currency funds: NTD 1,089.5 billion)
	4 SITE private funds	NTD 17.5 billion
	3 domestic futures trust funds for unspecified persons	NTD 60.0 billion
Life insurance companies	Non-discretionary money trusts managed by financial institutions	USD 0.7 billion
	Investment for their own accounts	USD 3.6 billion
	Lowering overseas investment hedge positions	USD 3.8 billion
Five major government pension funds and employment insurance fund	Investment for their own accounts	USD 2.3 billion

Source: Department of Foreign Exchange, CBC.

Management of 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 Bank reviews, authorizes and supervises banks to conduct FX business accordingly. In 2018, the Bank 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 service quality. Related developments in 2018 were as follows.

At the end of 2018, there were 3,444 authorized FX banks in total, which included 38 head offices and 3,368 branches of domestic banks, 35 branches of 29 foreign banks, three branches of Mainland Chinese banks, as well as 4,673 authorized money exchangers, post offices, and financial institutions authorized to engage in basic FX business.

On January 4, 2018, the Bank amended the *Regulations Governing Foreign Exchange Business of Banking Enterprises*, and the *Directions Governing Banking Enterprises for Operating Foreign Exchange Business*, and promulgated the *Directions Governing Authorized Banks for Operating Foreign Exchange Businesses Through Electronic or Communications Equipment*, in order to allow banking enterprises to open digital FX deposit accounts online for clients and simplify and upgrade the application for banks' FX business via electronic and communications equipment. The Bank also stipulated the procedures and rules for the authorized banks' various foreign currency trust businesses and foreign currency financial bonds issued abroad. The Bank urged banks to comply with the regulations on anti-money laundering/countering the financing of terrorism.

In accordance with the amendment of the *Company Act* and the recommendations of the Financial Action Task Force (FATF), on November 13, 2018, the Bank revised again the *Directions Governing Banking Enterprises for Operating Foreign Exchange Business*, amending the relevant regulations on grantors' remittances qualifications of non-discretionary money trust business and SWIFT messaging.

(2) Insurance Companies

Up to the end of 2018, the numbers of insurance companies allowed to engage in foreign currency insurance business for traditional and investment-linked foreign currency insurance products were 20 and 21, respectively. The 2018 foreign currency premium revenue was US\$33.5 billion, an increase of US\$1.8 billion or 5.55% over the previous year.

(3) Securities Firms

The approved cases granted by the Bank for securities firms to engage in FX business as of 2018 are shown in the following table.

Approved Cases for Securities Firms to Conduct FX Business in 2018

FX Business	Number
Agents for foreign bond trading	1
Proprietary foreign securities trading neither belonging to investment with their own funds nor for hedging needs	4
Foreign currency spot exchange transactions	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 to conduct FX business as of 2018 are shown in the following table.

Approved Cases for Investment Trust/Consulting Firms and Futures Firms to Conduct FX Business (as of the End of 2018)

Institution	FX Business	Number
Investment trust and investment consulting firms	Serving as mandated institution of private offshore funds	2
	Conducting public offer or private placement of foreign currency- denominated funds	7
Futures firms concurrently operating as leverage transaction merchants	Foreign currency margin trading	1

Source: Department of Foreign Exchange, CBC.

(5) Bills Finance Firms

In line with the opening of the foreign currency-denominated derivative business conducted by bills finance firms, on November 12, the Bank promulgated the rules for bills finance firms to, as business units, apply for operating the business of FX derivatives involving interest rates, as well as other matters for compliance.

(6) Offshore Banking Units (OBUs)

At the end of 2018, the number of OBUs was 60, and total OBU assets reached US\$201.0 billion, which was US\$2.0 billion or 1.0% less than the end of the previous year. The sum of OBU post-tax net profit was US\$2.8 billion, an increase of US\$0.1 billion or 5.2% from a year before.

(7) Offshore Securities Units (OSUs)

At the end of 2018, there were 19 OSUs, and total OSU assets reached US\$4.4 billion, which was US\$0.8 billion or 14.7% less than the previous year end. The total OSU profits turned into a net post-tax loss of US\$20.1 million in 2018, a decrease of US\$113.0 million from the net profits of US\$92.9 million of 2017.

(8) Offshore Insurance Units (OIUs)

As of the end of 2018, there were 20 OIUs, with a total amount of assets of US\$0.8 billion, which was US\$0.3 billion or 70.7% more than the previous year end. A total OIU post-tax loss turned into a net post-tax profit of US\$1.9 million in 2018, an increase of US\$16.2 million from the net loss of US\$14.3 million of 2017.

Foreign Currency Clearing Platform

Taiwan's foreign currency clearing platform, consigned by the Bank and established by the Financial Information Service Co., 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 2018	
		Transactions	Amount
US dollar	69	1,247,693	USD 1,951.5 billion
Renminbi	61	2572,984	RMB 394.7 billion
Yen	41	32,082	JPY 1,231.2 billion
Euro	40	19,058	EUR 5.7 billion
Australian dollar	29	15,000	AUD 1.6 million

Source: Department of Foreign Exchange, CBC.