

## 7. Financial Inspection

Pursuant to the objectives and duties stipulated in *The Central Bank of the Republic of China (Taiwan) Act*, the Bank conducts targeted examinations to ensure that monetary, credit, and foreign exchange policies are implemented effectively. The Bank has also established a report auditing system and a financial stability assessment framework to systematically monitor and assess possible sources of potential risks. The Bank then adopts appropriate policies in a timely manner to achieve the operational goal of financial stability. The followings are the main tasks conducted in 2019.

### On-Site Examination

Targeted examinations in 2019 were conducted on high-priced housing loans, banks' interest rates and required reserves, net stable funding ratios, counterfeit money processing (either in terms of the NT dollar or foreign currency), foreign currency exchange, foreign exchange remittances, foreign exchange transfer messages, refund of over-remitted amount of foreign direct investment, foreign currency loan and guarantee business, etc.

### Follow-up on Examination Findings

To ensure the effectiveness of the Bank's policies, the Bank continued to track whether the financial institutions under inspection had improved their operations, based on the findings from the Bank's targeted examinations as well as the results of the Financial Supervisory Commission's financial examinations that are related to the central bank's operations or regulations. A particular focus was on violations of the *Regulations on High-Priced Housing Loans by Financial Institutions*, which are punishable by the Bank or the Financial Supervisory Commission.

### Strengthening Off-Site Monitoring

In view of changes in financial conditions and amendments to financial regulations and accounting standards, the Bank constantly reviews and revises all relevant reporting forms and contents of statistical data submitted by financial institutions. Developments related to off-site monitoring in 2019 included the following:

- (1) To reflect the changes in business and risks of the bills finance industry, the analytical items and principles of the report auditing system CARSEL were reviewed and modified.
- (2) In accordance with the rules on accounting for leases under the *International Financial Reporting Standard 16 (IFRS 16)*, relevant reports and their analytical categories of financial institutions were modified.

- (3) Threshold standards in the *Credit Services Reporting Table* and the *Operational Procedures to Enhance Monitoring of Report Auditing of Commercial Banks' Financial Derivatives* were amended. The *Reporting Table of the Unsecured Bills Underwritten* and the *Secured Loan Collateral Analytical Table* for the monitoring of bills finance companies were added.

### **Improving Information Transparency of Financial Institution Operations**

The Bank regularly compiles and publishes financial institution statistics, such as *Condition and Performance of Domestic Banks (Quarterly)*, *Business Overview of Financial Institutions (Yearly)* and *Major Business Statistics of Financial Institutions*. All related information is disclosed on the Bank's website to strengthen operational transparency of financial institutions and to reinforce self-discipline of the market.

### **Financial Stability Assessment**

The Bank regularly conducts analysis on commercial banks' business operations and their risk exposure so as to understand the impacts on stability of the overall financial system. It also compiles financial soundness indicators and publishes the *Financial Stability Reports* to keep the public updated on the state of the domestic financial system and sources of potential risks and to aid cross-border communication and information sharing.

To enhance analytical effectiveness regarding financial stability, the Bank continued to improve the Graphical User Interface of Credit and Market Risks Models and completed a visual interactive dashboard design for analysis of domestic banks' credit business and risks. The Bank also inquired into the implications of new liquidity regulations of Basel III for the domestic banking sector.

### **International Cooperation in Financial Supervision**

In 2019, the Bank continued to actively engage in international cooperation related to financial supervision, such as attending the 10<sup>th</sup> SEACEN Meeting of Deputy Governors in Charge of Financial Stability and Banking Supervision, the 21<sup>st</sup> SEACEN-FSI Conference of the Directors of Supervision of Asia-Pacific Economies, and the 32<sup>nd</sup> Meeting of Directors of Supervision of SEACEN Members. The Bank also received delegations of financial supervisors from various Asian countries.