

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 following are the main tasks conducted in 2020.

On-Site Examination

Targeted examinations in 2020 were conducted on high-priced housing loans, disclosure of information on housing loans and interest rate bulletins, auditing liquidity of financial institutions, foreign exchange trading, foreign exchange remittances, financial institutions' counterfeit money processing (either in terms of the NT dollar or foreign currency), and foreign currency exchange counters' business.

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 related to the Bank's operations or regulations. A particular focus was on violations of the *Regulations Governing High-Priced Housing Loans Extended by Financial Institutions*, 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, 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 2020 included the following:

- (1) To reflect the changes in business scopes and risks of the bills finance industry and the credit departments of farmers' and fishermen's associations, the analytical items and principles of the report auditing system CARSEL were reviewed and modified.
- (2) In accordance with the *Regulations Governing the Capital Adequacy and Capital Category of Banks*, as well as other applicable laws, relevant reports and their analytical categories of financial institutions were modified.

- (3) In accordance with the revised *Reporting Guidelines for the BIS International Banking Statistics*, and considering the operation practices of our country's banking sector, the Bank amended the guide for completing and submitting the *Country Exposure Report* by domestic banks and local branches or subsidiaries of foreign/Mainland Chinese banks, as well as the relevant declaration forms.

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 information transparency of financial institutions' operations 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 potential impacts on stability of the overall financial system. It also compiles financial soundness indicators and publishes the *Financial Stability Report* 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.

In accordance with the IMF *2019 Financial Soundness Indicators Compilation Guide*, the Bank amended its Financial Soundness Indicators (FSIs), effective from the first quarter of 2020. The new FSIs increased the number of items from 42 to 58 and covered six categories, including domestic banks, life insurance companies, bills finance companies, the real estate market, the corporate sector, and the household sector.

To enhance analytical effectiveness regarding financial stability, the Bank continued to improve the graphical user interface of credit and market risk models, estimated domestic banks' unexpected losses from credit risks, and undertook a visualized analysis. In addition, the Bank inquired into several important financial issues, including the current situations and challenges concerning the development of sustainable finance.

International Cooperation in Financial Supervision

In 2020, the Bank continued to actively engage in international cooperation related to financial supervision, such as attending the 11th SEACEN Meeting of Deputy Governors in Charge of Financial Stability and Banking Supervision, the 22nd SEACEN-FSI Conference of the Directors of Supervision of Asia-Pacific Economies, and the 33rd Meeting of Directors of Supervision of SEACEN Members (all held in virtual format). The Bank also received the director and senior officers from the German Federal Financial Supervisory Authority (BaFin) in February 2020.