

## 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 adopts appropriate policies accordingly in a timely manner to achieve the operational goal of financial stability. The following are the main tasks conducted in 2022.

### Targeted Examination

Targeted examinations in 2022 were conducted on real estate mortgage loans, related fund flows, and loan pricing policies thereof, inward and outward foreign exchange remittances, derivatives transactions involving the NTD exchange rate, procedures for handling counterfeit notes denominated in NTD and foreign currencies, etc.

### Follow-up on Examination Findings

To ensure the effectiveness of the Bank's policy implementation, 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 FSC's financial examinations related to the Bank's operations or regulations. The financial institutions violating the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions* were subjected to administrative actions by the Bank.

### 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 2022 included the following:

- (1) Parts of the analytical indicators and assessment criteria of the related report auditing system for bills finance companies, local branches of foreign and Mainland Chinese banks, and credit departments of farmers' associations were revised.
- (2) In accordance with the modifications to the reporting forms for life insurance companies, the related analytical indicators, weights, and assessment criteria were amended.
- (3) To improve the efficacy of data processing and analysis, visualization tools were used to conduct a multi-dimensional and interactive statistical analysis of the operating conditions of domestic banks' overseas business units.

## Improving Information Transparency of Financial Institution Operations

The Bank regularly compiles and publishes statistics on financial institutions, such as *Condition and Performance of Domestic Banks (Quarterly)* and *Business Overview of Financial Institutions (Yearly)*. All related information is disclosed on the Bank's website and available for inquiry and download, with the aim of strengthening information transparency of financial institutions' operations and to reinforce market discipline.

In line with the government's open data policy, the financial and operational performance datasets of financial institutions were also regularly uploaded to the designated open government data platform.

## Financial Stability Assessment

The Bank regularly conducts an analysis of financial institutions' business operations and their risk exposure so as to identify potential risks to the 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.

To enhance analytical effectiveness regarding financial stability, in 2022 the Bank continued to improve the graphical user interface (GUI) of credit and market risk models and estimated domestic banks' value at risk (VaR) and unexpected losses from related risks. The Bank also compiled the financial vulnerability index to capture the vulnerability of the banking system so as to take preemptive measures as needed.

In addition, climate change-related issues have posed new challenges and risks to central banks' monetary policy and financial stability mandates. In this view, the Bank released strategic plans for addressing climate change issues, comprising 11 policy measures in five strategic aspects, with the aim of mitigating the impacts on domestic economic and financial systems, thereby maintaining financial stability and fostering sustainable economic development.

## International Cooperation in Financial Supervision

In 2022, the Bank continued to actively engage in international cooperation related to financial supervision, such as participating in the 13<sup>th</sup> SEACEN Meeting of Deputy Governors in Charge of Financial Stability and Banking Supervision, the 24<sup>th</sup> SEACEN-FSI Conference of the Directors of Supervision of Asia-Pacific Economies, and the 35<sup>th</sup> Meeting of Directors of Supervision of SEACEN Members (all held in virtual format). The Bank also received senior officials from the National Financial Supervisory Commission (NFSC) of Vietnam in 2022.