

## 4. Banking Supervision

Pursuant to the Central Bank of the Republic of China (Taiwan) Act, the Bank conducts target examinations to ensure effective enforcement of related regulations, and establishes an offsite review system and a financial stability evaluation framework to systematically monitor, analyze, and evaluate the potential sources of financial system risks in order to adopt appropriate policies and measures in a timely manner.

### **Implementing On-Site Examinations**

The Bank conducts target examinations related to monetary, credit, and foreign exchange policies and payment systems when necessary. The target examinations in 2009 inspected the handling of counterfeit money by financial institutions, maintenance of required reserves, 921 earthquake relief loans, forward foreign exchange transactions, foreign exchange remittances, the operation of foreign currency exchanges by authorized money exchangers, and correctness of reporting to the Bank, etc.

### **Following up on Banks' Compliance with the Examination Findings**

In light of the Bank's examination findings and the FSC's examination findings related to the Bank's business or regulations, the Bank monitors what the examined financial institutions have done to improve, urges the financial institutions to rectify related deficiencies, and thus ensures the successful implementation of the Bank's policies.

### **Offsite Review**

Based on the periodical reports submitted by financial institutions and utilizing the computerized offsite review system, the Bank assesses the operation, financial conditions and regulatory compliance of individual financial institutions.

Moreover, the Bank regularly compiles and publishes various financial institution statistics and the most recent financial regulations. The Bank also discloses related information on the Bank's website. Therefore, the transparency of the operation of financial institutions is increased, reinforcing the market discipline mechanism.

### **Financial Stability Evaluation**

The Bank compiles financial soundness indicators and issued the third financial stability report in 2009 so that related competent authorities, market participants and the public can understand the status and sources of financial system risks in Taiwan. This will also promote

cross-border exchange of information on banking supervision.

### **International Cooperation of Financial Supervision**

The Bank actively engages in international cooperation of financial supervision. The Bank assigned a researcher for the SEACEN centre research project on the practice of liquidity risk management and provided the Centre with needed information regarding the "College of Supervisors" survey. The Bank also provided the World Bank's Consultative Group to Assist the Poor (CGAP) with information about Taiwan's savings, finance and consumer protection.

### **Other Important Measures**

To reinforce the evaluation of financial stability, the Bank collaborated with academia in the research project titled "Evaluation of Taiwanese Banks' Credit Losses" in order to understand the risk source(s) of Taiwanese banks' credit losses and possible impacts.