

## 4. Financial Inspection

Pursuant to the *Central Bank of the Republic of China (Taiwan) Act*, the Bank conducts target examinations to ensure effective enforcement of policies related to monetary, credit, and foreign exchange management, establishes an off-site monitoring system and a financial stability assessment framework to systematically monitor and assess the potential sources of risks in order to deploy appropriate policies and measures in a timely manner to fulfill its mandate of financial stability.

### Implementing On-Site Target Examinations

Target examinations in 2011 inspected the handling of counterfeit money by financial institutions, housing loans in specific areas (Taipei City and 13 other districts in New Taipei City), land collateralized loans, housing credit information disclosure, data warehouse of checking accounts, spot and forward foreign exchange transactions, derivatives, foreign liabilities, the operation of foreign currency exchanges by authorized foreign exchange banks, e-banking of foreign currency business, and correctness of reporting to the Bank, etc.

### Follow-up on Banks' Compliance with Examination Findings

In light of the Bank's target examination findings and the FSC's examination findings related to the Bank's operations or regulations, the Bank continued to monitor what the examined financial institutions had improved, to urge the financial institutions to rectify related deficiencies, and thus to ensure the successful implementation of the Bank's policies.

### Off-site Monitoring

Based on financial conditions and amendments to relevant laws and regulations, the Bank reviews and amends as necessary the format and content of periodical statistical data submitted by financial institutions. The collected statistics are compiled mostly on a quarterly basis, and the operating developments of financial institutions were monitored via the following:

- (1) To strengthen financial institutions' liquidity management, domestic banks' core deposits in NT dollars and limits on maturity mismatch of 0-30 day liquidity in US dollars were newly added in the analytic pool.
- (2) In line with the *SFAS (Statement of Financial Accounting Standards) No.40: Accounting Guidelines for Insurance Contracts*, the relevant monitoring indicators for life insurance companies and property and casualty insurance companies were amended.
- (3) In accordance with the amendments to the *Regulations Governing the Credit and Ceiling on*

*Credit Extension by the Credit of Departments of Farmers' and Fishermen's Associations*, the relevant requirements and analytic items were modified.

- (4) In consonance with the changes of the BIS statistics format and national classification, the country risk statistics reporting system was amended.

### **Financial Institution Information Transparency**

The Bank regularly compiles and publishes various financial institution statistics and the most up-to-date financial regulations. The Bank also discloses related information on its website. Therefore, the operational transparency of financial institutions has increased, and market self-discipline has been reinforced.

### **Financial Stability Assessment**

The Bank compiles financial soundness indicators so that the relevant authorities, market participants and the public are kept informed of the status and sources of financial system risks in Taiwan. In 2011, the fifth *Financial Stability Report* was published. This would also promote cross-border communication and information sharing of Taiwan's financial stability.

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

The Bank actively engages in international cooperation relating to the area of financial supervision. In 2011, the Bank assigned two researchers for the SEACEN Centre research projects ("Strengthening Financial Stability Indicators in the Midst of Rapid Financial Innovation: Updates and Assessments", and "Framework for Macro-prudential Policies for Emerging Economies in a Globalised Environment"), answered questionnaires regarding financial stability risks, and provided the Centre with related information for the SEACEN members' "College of Supervisors".

### **Other Important Measures**

The Bank collaborated with the academia in the research project titled "Assessments of Financial System's Liquidity Risks" in order to build a qualified liquidity risks assessment model.