

## 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, and 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 2012 inspected the handling of land collateralized loans and high-value housing loans as well as mortgage lending in legally-stipulated “specific areas,” mortgage information disclosure, required reserves, banks' offered rates, data warehousing of checking accounts, counterfeit money detection and follow-up, quality control of ATM banknotes, forex forwards, NT dollar options, the operation of foreign currency exchanges by authorized banks, banks' foreign currency bond positions, the classification and statistics of foreign exchange remittances, 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 how the examined financial institutions had improved and to urge the financial institutions to rectify related deficiencies, thus ensuring 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. In 2012, developments relating to off-site monitoring for the above purpose included the following:

- (1) In line with the new required liquidity ratio raised by the Bank, criteria for assessing liquidity and compliance of domestic banks, local branches of foreign banks, credit cooperative associations, and credit departments of farmers' and fishermen's associations were amended accordingly.
- (2) The assessment criteria for domestic banks' asset quality were adjusted to also include analysis of other special mention loans and changes to loan loss provision standards and weights.

- (3) The benchmark of financial holding companies' double leverage ratios was changed in an adjustment of capital adequacy assessment.
- (4) In view of the establishment of their first Taiwan branches by two Mainland Chinese banks (Bank of China and Bank of Communications), the related statistical reports were amended and incorporated in the Bank's off-site monitoring system.

### **Financial Institution Information Transparency**

The Bank regularly compiles and publishes various financial institution statistics and up-to-date financial regulations. The Bank also discloses related information on its website. As a result, 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 2012, the sixth *Financial Stability Report* was published. This also promotes cross-border communication and information sharing with regard to Taiwan's financial stability and surveillance.

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

In 2012, the Bank continued to actively engage in international cooperation relating to financial supervision, including completing SEACEN Centre questionnaires regarding their learning and research needs analyses, writing to the Asian Development Bank to convey our support for the APEC Financial Regulators Training Initiative, participating in the 3rd SEACEN High-level Seminar on Financial Stability/3<sup>rd</sup> Meeting of Deputy Governors in charge of Financial Stability and Banking Supervision, and hosting the SEACEN Course on Assessing Market Risk of a Bank.

### **Other Important Measures**

The Bank collaborated with academia in the research project "Basel III Impacts on Financial Stability and Monetary Policy" in order to explore a feasible countercyclical capital buffer mechanism for Taiwan as well as comprehensively understanding Basel III's impacts on bank credit supply and monetary policy in Taiwan.